Case 10940ABCDEFGHI-14
Penn American Rezones

PENN AMERICAN DISTRICT PLAN

Impact on Southtown Center

Prepared for

Larkin, Hoffman, Daly & Lindgren, Ltd.

July 2014

1974 – 2014
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YEARS OF EXCELLENCE
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August 13, 2014

Mr. William C. Griffith
LARKIN HOFFMAN DALY & LINDGREN, LTD.
1500 Wells Fargo Plaza
7900 Xerxes Avenue South
Minneapolis, Minnesota 55431

Dear Mr. Griffith:

In response to your request, we have conducted an evaluation of the Penn American District Plan (dated 1-27-14) and the proposed Chapter 21 as they relate to the Southtown properties owned by Kraus-Anderson Realty. Work tasks conducted as part of this engagement are summarized below.

- Future zoning for the Southtown properties could include up to four different zoning districts: C-1, C-3, C-4, and C-5. Impacts of the various zoning district provisions on development were identified.

- The proposed Chapter 21 zoning districts for the Southtown properties were reviewed to identify the impacts on Southtown and its ability to meet future needs of retail tenants.

- Retail stores with approval rights in leases were identified including the type of approval rights and term for which they apply. Parcels affected by these approval rights were identified.

- Market demand characteristics for office space were evaluated including historic Bloomington absorption, rental rates, and anticipated future absorption based on market trends.

- Southtown Center's potential for a retail/office mixed-use development was evaluated including a mixed-use retail/office concept illustrating the implications of Chapter 21 regulations.

- Case studies were prepared for several retail redevelopment projects located in the Twin Cities. Case studies included: Excelsior and Grand, West End, Brookdale Center, Apache Plaza, Wayzata Bay Center, and Genesee.

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This report was prepared in accordance with our proposal dated May 13, 2014. This report was prepared with the understanding that the results of our work will be used by the client in presentations to the City of Bloomington.

Respectfully submitted,

James B. McComb

James B. McComb
President

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SUMMARY OF FINDINGS

The City of Bloomington is proposing to amend the Bloomington Code of Ordinances with the proposed Chapter 21, which establishes new zoning and land development regulations. Chapter 21 is intended to implement the Penn American District Plan. The proposed Chapter 21 will establish the Southtown properties as non-conforming uses. The cumulative extent of these non-conformities will be detrimental to the physical, business, and financial operation and redevelopment of Southtown Center and related properties.

Southtown Properties

The Southtown properties consist of Southtown Center, Richfield Bloomington Mitsubishi Motors, and Lucky 13 Restaurant. Southtown Center contains about 520,550 square feet of gross leasable area (GLA) on 36.94 acres with an assessed value of $47,500,000. The Lucky 13 parcel is 7,273 square feet of GLA on 2.97 acres and is valued at $2,946,700. The Richfield Bloomington Mitsubishi Motors parcel consists of 14,805 square feet of GLA on 1.72 acres with an assessed valued of $1,720,500. The three parcels have an assessed value of over $52.1 million.

Southtown Center, with 520,550 square feet of GLA, is a successful regional shopping center with a vacancy rate of 0.6 percent. The current vacancy rate for shopping centers in the Metro Area is 7.2 percent.

Southtown Center has about 2,049 parking spaces or about 3.9 spaces per 1,000 square feet. Southtown Center has fewer parking spaces per 1,000 square feet than other regional malls and cannot add additional density, retail or other uses, without building structured parking.

Southtown Center was constructed in 1958, but has undergone periodic redevelopment and remerchandising. Wards was replaced by Herberger's in a refurbished store. The Mann Theater was replaced by several retail buildings including Kohl's in 1996.

The portion of the center dating from 1958 contains about 392,131 square feet indicating that about 25 percent of Southtown Center is less than 20 years old.

Successful shopping centers are designed to have large anchor stores and junior anchors to attract customers that will also shop at the smaller retail stores. Without the anchor store customers, the small stores will fail.

Southtown Center is a fashion oriented regional shopping center. Fashion shopping centers need the ability to change over time to accommodate the need of existing and future tenants.

Southtown Center has two anchor stores and five junior anchors totaling 427,937 square feet or 80 percent of total GLA. Small store space totals only 39,064 square feet. Businesses that occupy these small retail spaces are the potential candidates for mixed-use buildings with ground floor retail. These smaller stores need the customer drawing power of the larger stores to be economically viable.

Southtown Center serves as the regional retail draw that attracts customers that shop at the other retail stores in the area. These retail stores, including those in United Properties' Penn American development, benefit from Southtown Center's customer attraction. If Southtown Center loses its vitality, sales at nearby retailers will suffer and some will close.

Long-term leases with Kohl's and Herberger's insure the future of Southtown Center as a regional shopping center. These long-term leases affect the ability to redevelop Southtown Center consistent with the Penn American District Plan and Chapter 21.

Redevelopment Constraints

Southtown Center leases and other documents contain provisions that limit the ability to redevelop areas of the shopping center.

- Xcel Energy has a 50-foot easement through the Southtown properties that prohibits structures within the easement area.
- Leases with retail stores extend as far as 2045, requiring Southtown Center to maintain their space through the lease term. Long-term leases will prevent significant redevelopment prior to 2025.
- Southtown Center leases with Herberger's, Kohl's, Bed Bath & Beyond, T.J. Maxx, Famous Footwear, and Applebee's provide these tenants with approval rights for changes to Southtown Center that would affect their store. These approval rights generally relate to number and location of parking spaces, entrances/exits, limitations on new construction or other changes to the common areas. In the past, tenants have invoked these rights to prevent development at Southtown Center that would increase density.

While it is possible, with tenant approval, to buy out lease terms and approval rights, it is very expensive.

The Penn American District Plan and the proposed Chapter 21 provisions will have numerous adverse impacts on Southtown Center and related properties as described in the next section.

Penn American District Plan

The purpose of the Penn American District Plan is to define a clear vision to guide redevelopment and public investments. Key elements of the district plan vision include:

- Adding new, pedestrian-friendly streets and creating smaller development blocks as redevelopment occurs.
- Increasing development intensity and diversifying the mix of land uses.
- Improving the quality and character of buildings and public spaces.
- Increasing mobility through targeted improvements to roads, bikeways, and sidewalks.
- Leveraging the proposed substantial investments in transit and transportation infrastructure.

The Penn American District Plan contains concepts and images that represent the vision. The plan is presented as a 2050 objective, but implementation is intended to occur over time following approval of Chapter 21 of the Bloomington Code of Ordinances based on market conditions.

- The Penn American District pedestrian-friendly streets are inconsistent with retail streetscapes.
- The Penn American District Plan includes key elements that are inconsistent with the design, operation, and redevelopment of a regional shopping center.
- Key elements of the Penn American District Plan, visual imagery, and zoning regulations are more consistent with multi-story office districts, suggesting that the existing Southtown Center retail buildings will be replaced by new office buildings.
- The Penn American District Plan envisions a net reduction of 229,000 square feet of retail space. With Southtown Center representing about half of the Penn American District, much of this reduction would occur at Southtown Center.
- Figures illustrating key elements of the Penn American District Plan do not reflect streetscape building set back requirements that would apply to much of the Southtown Center.
- The proposed street grid for Southtown Center and its right-of-way (ROW) and streetscape requirements will reduce parking spaces and developable area.

The overall key elements recommendations and imagery reflect a vision that is not conducive to successful retail shopping center operations.

Chapter 21

The proposed Chapter 21 provisions of the Bloomington Code of Ordinances are designed to implement the Penn American District Plan. The proposed Chapter 21 provisions will make Southtown Center non-conforming as to site characteristics and buildings. The result is that the entire shopping center will become non-conforming.

Being a non-conforming property has serious negative implications for Southtown Center due to the all-encompassing nature of the proposed Chapter 21 regulations. For example:

- All buildings at Southtown Center, except for Kohl’s, will be non-conforming as to height. Herberger’s second floor is only 58 percent of the building footprint and will be non-conforming.
- The entire Southtown Center site is non-conforming as to private street ROW, building setbacks and impervious surfaces.
- Provisions for setback for private streets make Southtown Center non-conforming as to parking ratio.
- The Herberger’s, Toys R Us, Kohl’s, Bed Bath & Beyond, Southtown Bowl, and Hancock Fabrics buildings will be non-conforming for façade windows.

- Buildings 200 and 300 and McDonald's will be non-conforming for being smaller than 50,000 square feet.
- The streetscapes for the C-1, C-3, and C-4 zoning districts have 35-foot building setbacks and do not represent retail-friendly customer environments. Retail-friendly streetscapes have storefronts close to the sidewalk, not set back 25 feet from the sidewalk.
- Chapter 21 establishes minimum lot sizes of 200,000 square feet in the C-3 zoning district, 120,000 square feet for C-1, and 80,000 square feet for C-5 zoning district.
- The suggested block grid creates seven blocks and lots that are non-conforming as to minimum lot size. These non-conforming lots would be undevelopable.
- The suggested street grid creates six lots that are less than the minimum C-3 zoning district lot size of 200,000 square feet.
- The suggested block grid creates a lot in the northwest quadrant of American Boulevard and Knox Avenue that is less than the C-5 minimum lot size of 80,000 square feet.
- Regulations related to non-conformities will limit or possibly prevent Southtown Center from adapting to future needs of existing or new tenants.

If the C-3 zoning district standards were applied to Genesee, the project could not have been built without a variance.

Chapter 21 ROW and building setback requirements significantly reduce Southtown Center's developable area and parking supply.

- Implementation of the street grid and building setbacks would imply demolition of all buildings except McDonald's, Building 200, and the western portion of Building 600.
- The suggested street grid, if imposed on Southtown Center, would consume 313,854 square feet (7.2 acres) for ROW and 438,950 square feet (10.1 acres) for building setback. This will result in 17.3 acres or 46.0 percent of Southtown Center's site being devoted to ROW and building setback.
- If the existing drive aisles were accepted as private streets and setbacks established from existing building facades, ROW and setback requirements of Chapter 21 will eliminate about 434 parking spaces in the central parking lot and the parking lot east of Kohl's.
- This reduction in parking spaces will place Southtown Center in violation of Chapter 21 parking requirements and its parking agreements with Herberger's, Kohl's, Bed Bath & Beyond and T.J. Maxx.
- Two other planned public projects will reduce Southtown's parking supply. ROW required for the rebuilding of the I-35W/I-494 interchange will eliminate about 142 parking spaces. ROW, setbacks, and site access drives imposed by the BRT route will reduce Southtown's parking by 56 spaces.
- The parking spaces impacted by Chapter 21 provisions, BRT, and I-494 reconstruction total about 799 spaces. The potential to create about 186 new on-street spaces results in a

net loss of 613 spaces. These spaces will need to be replaced before any new development could occur.

Each of the above changes in parking spaces will place Southtown Center in violation of minimum parking agreements with Herberger's, Kohl's, Bed Bath & Beyond, and T.J. Maxx, as well as the Chapter 21 parking requirements.

Replacing the existing 613 parking spaces required for ROW and building setbacks will be a significant financial burden for Southtown Center, if it is even possible to build parking structures on the Southtown Center site.

Infill Development

Increasing density at Southtown Center will be challenging based on the requirements of Chapter 21, tenant lease expiration dates, and the Xcel Energy easement.

The area east of Kohl's could accommodate a two-story infill building on a lot with about 68,625 square feet. This lot would be non-conforming. This building could be two story with 47,400 square feet of retail and office space, as shown in Table i.

This building would require 204 parking spaces according to Chapter 21. In addition, the 275 existing parking spaces in the area would also have to be replaced, for a total of 479 new parking spaces.

Providing 479 parking stalls would require a three level underground parking garage with about 160 spaces per level. An underground parking garage would be very expensive.

Table i

BUILDING SIZE AND PARKING
FOR ROW AND BUILDING SETBACKS

Floor	Square Feet	Parking
First	28,200	137
Second	19,200	67
Total	47,400	204
Parking Lost		
Building Footprint		140
ROW & Setbacks		135
Total		479

Source: McComb Group, Ltd.

Redevelopment Case Studies

Several retail mixed-use redevelopments have been completed in the Twin Cities. These redevelopments can provide valuable insights into public sector costs associated with redevelopment. Redevelopments selected as case studies are listed on Table ii. All of the redevelopments occurred on sites that were in transition or contained obsolete uses. Brookdale Center, Apache Plaza, and Wayzata Bay Center were failing enclosed mall shopping centers with high vacancy rates and declining occupancy. Excelsior and Grand was a deteriorated commercial area; and West End was an obsolete warehouse and tennis club. The Genesee site was occupied by an auto dealership.

None of the case studies involved redevelopment of a successful shopping center or commercial area. Retail and residential are the largest mixed-use components. Office is present in two developments in small amounts. Structured parking is a major component at four of the mixed-use developments.

Table ii

MIXED-USE COMPONENTS

Development	Retail (Sq. Ft.)	Office (Sq. Ft.)	Residential (Units)	Hotel (Rooms)	Structured Parking (Spaces)
Excelsior and Grand	88,000		644		1,505
West End	347,000	33,000	119		1,470
Brookdale Center	544,000				
Apache Plaza	230,800		513		
Wayzata Bay Center	130,000	27,000	410	100	1,045
Genesee	14,000		234		405

Source: McComb Group, Ltd.

Public sector costs associated with these redevelopments have been significant, as shown in Table iii. Public sector costs ranged from $4.7 million for Brookdale Center to $30.0 million at Excelsior and Grand. Brookdale Center and Apache Plaza were the largest developments in terms of land area, and Genesee is the smallest. The three largest redevelopments, in terms of public cost, had development sites that ranged from 14.5 to 17.0 acres.

Table iii

REDEVELOPMENT SIZE AND PUBLIC SECTOR COST

Development	Acres	Public Cost Amount	Public Cost Per Acre
Excelsior and Grand	16.0	$ 30,000,000	$ 1,875,000
West End	17.0	21,900,000	1,288,235
Brookdale Center	56.0	4,700,000	83,929
Apache Plaza	50.0	8,900,000	178,000
Wayzata Bay Center	14.5	22,900,000	1,579,310
Genesee	3.7	13,000,000	3,513,514

Source: McComb Group, Ltd.

All of the redevelopment case studies relied on tax increment financing (TIF) for some or all of the public costs. Four of the redevelopments--Excelsior and Grand, West End, Wayzata Bay Center, and Genesee--were vertical mixed-use; Apache Plaza was horizontal mixed-use; and Brookdale Center was a single use redevelopment. In the three vertical mixed-use redevelopments that have been completed, the retail components have experienced slow absorption and above average vacancy.

Summary

The concepts and vision of the Penn American District Plan and the proposed Chapter 21 regulations, when applied to Southtown Center, result in the site and its buildings becoming non-conforming with many different regulations.

The ability of Southtown Center to comply with Chapter 21 regulations and become a conforming property is limited by the distribution of long-term leases, tenant approval rights, Xcel Energy easement, existing building locations, and the need for anchor and junior anchor stores to attract customers for small stores. There is no physically or financially viable approach to construct the parking spaces that will become non-conforming by required ROW and building setback requirements.

The Penn American District Plan images and proposed Chapter 21 regulations are inconsistent with the maintenance and/or creation of a successful retail area. Regulations related to non-conformities will limit or possibly prevent Southtown Center from adapting to future needs of existing or new tenants. The images, comprehensive design guidelines, and regulation of the Penn American District Plan and Chapter 21 are more consistent with an office district than a retail area.

Chapter I

SOUTHTOWN PROPERTIES

The Southtown properties consist of Southtown Center, Richfield Bloomington Mitsubishi Motors, and Lucky 13 Restaurant. Two other businesses, Jiffy Lube and Wedding Day Jewelers, are located along Penn Avenue, but are under separate ownership. These two properties will also be impacted by the Penn American District Plan.

Assessed Value

Southtown Center contains about 520,550 square feet of gross leasable area (GLA) on 36.94 acres with an assessed value of $47,500,000. The Lucky 13 parcel consists of a restaurant with 7,273 square feet of GLA on 2.97 acres valued at $2,946,700. The Richfield Bloomington Mitsubishi Motors parcel consists of an auto dealership with 14,805 square feet of GLA on 1.72 acres of land valued at $1,720,500. The three parcels have an assessed value of over $52.1 million, as shown in Table 1-1.

Table 1-1

SOUTHTOWN PROPERTIES ASSESSED VALUE

Parcel	Assessed Value	Square Feet	Value per Sq. Ft.
Southtown Shopping Center	$ 47,500,000	1,609,224	$ 29.52
Richfield Bloomington Mitsubishi Motors	1,720,500	75,066	22.92
Lucky 13	2,946,700	129,436	22.77
Total	$ 52,167,200	1,813,726	$ 28.76

Source: Hennepin County.

Southtown Center

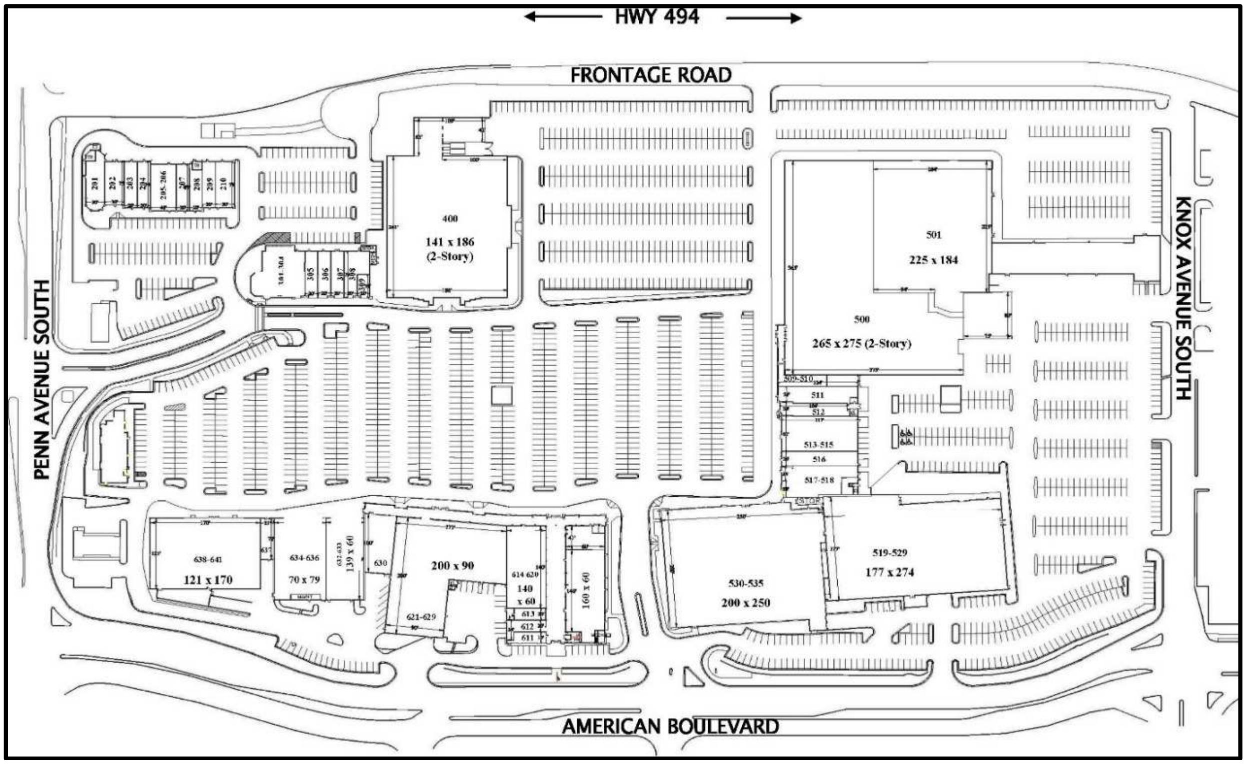
Southtown Center, with 520,550 square feet of GLA, is a successful regional shopping center. Southtown Center has two small vacant retail spaces totaling 3,020 square feet for a vacancy rate of 0.6 percent. In 2013, the retail occupancy rate for shopping centers in the Metro Area was 7.4 percent.

Southtown Center has about 2,049 parking spaces or about 3.9 spaces per 1,000 square feet. This is considerably less than the spaces per 1,000 square feet provided at the typical regional or super regional mall. For example, Southdale Center has a parking ratio of 5.1 spaces, Rosedale Center (5.0 spaces), Ridgedale Center (5.5 spaces), and Burnsville Center (5.6 spaces). Southtown Center has fewer parking spaces than other regional malls and cannot add additional density, retail or other uses, without building structured parking.

Southtown Center was constructed in 1958, but has undergone periodic redevelopment and remerchandising. Wards was replaced by Herberger's in a refurbished store. The Mann Theater was replaced by several smaller retail buildings in 1996 and Kohl's was constructed. Southtown Center contained about 455,221 square feet in 1995 indicating continued investment and updating to 520,550 square feet today. The portion of the center dating from 1958 contains about 392,131 square feet indicating that about 25 percent of Southtown Center is less than 20 years old. The Southtown Center site plan is shown in Figure 1-1. The site plan shows the former Wards TBA, which will be demolished and is not included in the GLA.

Figure 1-1

SOUTHTOWN CENTER



Source: Kraus-Anderson Realty.

Southtown Center has a mix of anchor stores, junior anchors, smaller stores, and a pad site, as shown in Table 1-2.

Table 1-2

SOUTHTOWN CENTER TENANT MIX BY STORE SIZE

Square Feet	Stores	GLA	Percent
Anchor Stores	2	213,990	41.1 %
Junior Anchors	6	208,966	40.1
7,500 - 10,000	3	25,651	4.9
5,000 - 7,499	3	18,497	3.6
2,500 - 4,999	5	18,533	3.6
Under 2,500	18	30,291	5.8
Pad Site	1	4,622	0.9
Total	38	520,550	100.0 %

Source: Kraus-Anderson Realty and McComb Group, Ltd.

Two anchor stores and six junior anchors occupy about 422,956 square feet. Three mid-size inline stores in the 7,500 to 10,000 square foot size range occupy 25,651 square feet or 4.9 percent of the GLA; while three stores in the 5,000 to 7,499 square foot range occupy 3.6 percent or 18,497 square feet. Twenty-four stores are less than 5,000 square feet with 18 being smaller than 2,500 square feet. Almost half of the store spaces (46 percent) are less than 2,500 square feet. Only two stores--Herberger's and Kohl's--are two level. First floor GLA is 456,797 square feet and second level is 63,571 square feet.

Successful shopping centers are designed to have large anchor stores and junior anchors to attract customers that will also shop at the smaller retail stores. Southtown Center has two anchor stores and six junior anchors totaling 422,956 square feet or 81 percent of total GLA. These stores have large floor area and long width and depth dimensions. These stores have large ground floor dimension: 275 feet by 265 feet for Herberger's and 186 feet by 241 feet for Kohl's. Both stores are two level and total 213,990 square feet. Three other junior anchors--Toys R Us, Bed Bath & Beyond, and T.J. Maxx--with depths of over 200 feet, represent 66.7 percent of the GLA at Southtown Center, as shown in Table 1-3. These stores have a lineal frontage of 1,156 feet, over one-fifth of a mile. Stores with depths of 101 to 120 feet account for 16,005 square feet or 3.1 percent of the GLA. Thirteen tenants have store depths of 75 to 80 feet, but account for only 31,039 square feet of GLA or 6.0 percent. Six tenants with store depths ranging from 40 to 70 feet occupy only 8,025 square feet or 1.6 percent of the GLA.

Table 1-3

SOUTHTOWN CENTER
ANCHOR AND INLINE RETAIL SPACE CHARACTERISTICS

Store Depth	Stores	Lineal Frontage	GLA	Percent
40 Feet	2	80	3,022	0.6 %
60 Feet	3	61	3,583	0.7
70 Feet	1	20	1,420	0.3
75 Feet	1	20	1,713	0.3
80 Feet	12	335	29,326	5.7
100 Feet	3	125	12,252	2.4
101-120 Feet	4	134	16,005	3.1
121-160 Feet	5	429	59,315	11.5
161-199 Feet	1	274	45,259	8.8
200 Feet & Over	5	1,156	344,033	66.7
Total	37	2,634	515,928	100.0 %

Note: Excludes McDonald's.
Source: Kraus-Anderson Realty and McComb Group, Ltd.

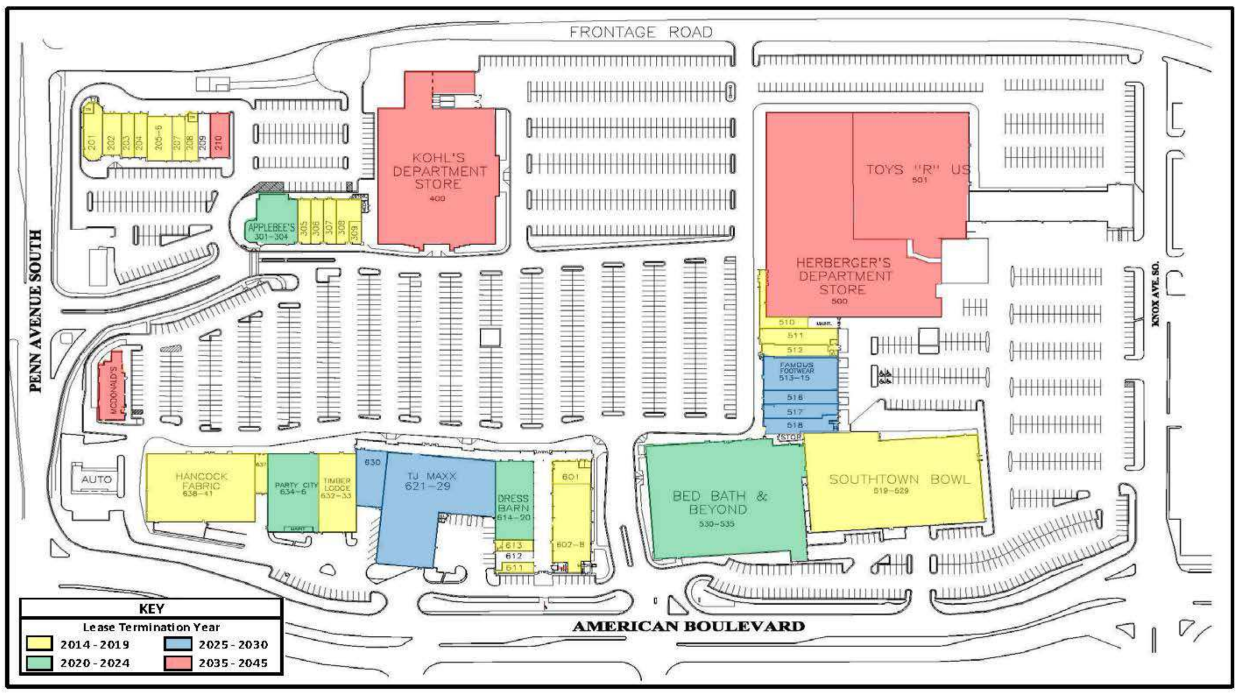
Table 1-3 demonstrates that retail stores at a regional shopping center have store width and depth requirements that vary with store size. At Southtown Center, 19 stores (51 percent of the stores) have depths of 80 feet or less. These stores total 39,064 square feet and represent only 7.6 percent of Southtown Center's GLA and 516 feet of frontage. These smaller stores need the customer drawing power of the larger stores to be economically viable. Tenants that occupy spaces of 80 feet or less in depth are the potential candidates for mixed-use buildings with ground floor retail.

Lease Expirations

Southtown Center has leases with 34 tenants with expirations dates, including option periods extending to 2045, as shown in Figure 1-2. These options can be exercised by the tenant and landlord cannot refuse to extend the lease. This gives the tenant control of the space, subject to the lease terms, until the last option period ends. Many of the Southtown Center buildings have leases that extend beyond 10 years, some as long as 30 years or more. Southtown Center's two anchor stores have long-term leases. Kohl's lease extends to 2037. Herberger's, and its subtenant Toys R Us, lease expires in 2015; however, Herberger's is planning to execute a new 30-year lease for an expanded space that will expire in 2045. The McDonald's ground lease extends to 2036. The long-term leases by Kohl's and Herberger's insure the long-term future of Southtown Center as a regional shopping center. These long-term leases affect the ability to redevelop Southtown Center consistent with the Penn American District Plan and Chapter 21.

Figure 1-2

SOUTHTOWN CENTER LEASE EXPIRATIONS



Source: Kraus-Anderson Realty and McComb Group, Ltd.

Twenty-two leases will expire during the 2014 to 2019 period. These leases are distributed throughout Southtown Center. Each of the buildings with 2014 to 2019 lease terminations have leases that extend beyond 2019. Twelve of the spaces with near term termination are located in the northwest corner of the Southtown site in Buildings 200 and 300. Dating from 1995, these spaces are less than 20 years old and command the highest rents. As a result, they are the most valuable buildings on a per square foot basis. Each of these buildings has a lease that extends beyond 2019. The lease term on space 210 terminates in 2035 and spaces 301-304 terminate in 2024. Four leases, including three junior anchors, expire in the 2020 to 2024 timeframe; and five leases, including a junior anchor, expire in the 2025 to 2030 time period. No leases expire between 2031 and 2035. Some of the leases in spaces 510 to 518 south of Herberger's have redevelopment or termination clauses that would permit early lease termination for a planned redevelopment.

Merchandise Exclusives

Retail store leases at shopping centers frequently contain clauses that provide a merchandise product exclusive to the tenant. Nineteen retail stores at Southtown Center have exclusive merchandise clauses in their leases. These stores include:

- McDonald's
- Bruegger's Bagels
- Starbucks
- Subway
- The UPS Store
- Verizon Wireless
- Panda Express
- Game Stop
- Restwell Mattress
- Kohl's
- Famous Footwear
- Massage Envy
- Carter's
- Bed Bath & Beyond
- Schuler Family Shoes
- H & R Block
- Dress Barn
- Mattress Firm
- Party City

Southtown Center cannot lease to a retailer that would be a direct competitor of one of these stores. These exclusives limit the landlord's ability to lease space at Southtown Center. Other lease restrictions include co-occupancy clauses. Christopher & Banks has a co-occupancy clause with Herberger's. If Herberger's should close, Christopher & Banks could leave Southtown Center.

Xcel Energy Easement

Xcel Energy (NSP) has a 50-foot easement through the Southtown properties dating from October 31, 1923. An encroachment license was executed on November 28, 1973 that retroactively approved the location of the buildings currently located in the easement area. This document also provided that "no additional structures shall be constructed, and no additions shall be added to the existing buildings within the area of NSP's easement." The location of this easement is a significant constraint to development in its vicinity.

Tenant Approval Rights

Six Southtown Center tenants have lease provisions that give them the right to approve changes to the shopping center. The language of these provisions commonly provide that: "landlord shall not, without prior written consent of tenant, which consent may be withheld in tenant's sole discretion" make a specific change. Leases of Herberger's, Kohl's, Bed Bath & Beyond, T.J. Maxx, Famous Footwear, and Applebee's have these clauses for changes that would affect their store. These approval rights generally relate to changes in number and location of parking spaces, entrances/exits to Penn Avenue and American Boulevard, sidewalks, locations where new construction is not permitted, and other changes to the common area. In the past, tenants have invoked these rights to prevent development at Southtown Center that would increase density. While it is possible, with tenant approval, to buy out lease terms and approval rights, it is very expensive.

These lease provisions and Xcel Energy easement severely limit infill development options in the central parking area and the area between Kohl's and Herberger's.

Chapter II

PENN AMERICAN DISTRICT PLAN

The purpose of the Penn American District Plan is to define a clear vision to guide redevelopment and public investments. Key elements of the district plan vision include:

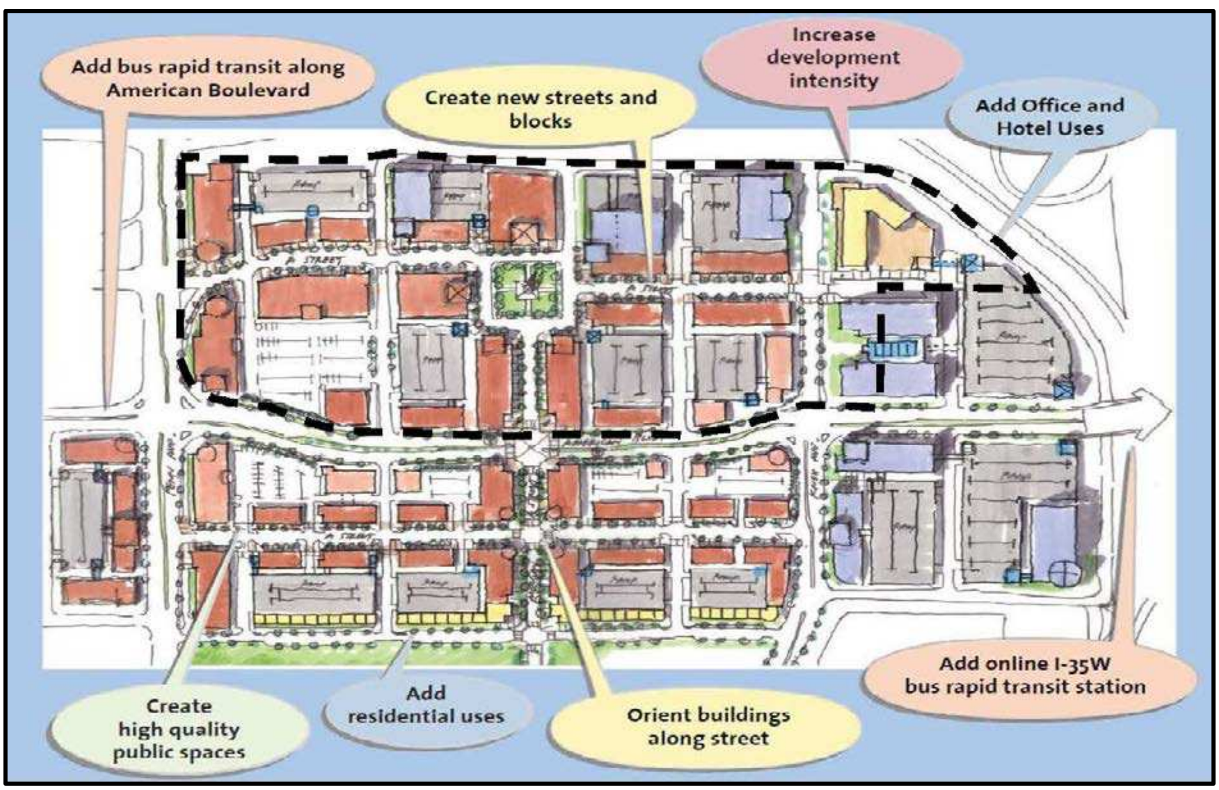
- Adding new, pedestrian-friendly streets and creating smaller development blocks as redevelopment occurs.
- Increasing development intensity and diversifying the mix of land uses.
- Improving the quality and character of buildings and public spaces.
- Increasing mobility through targeted improvements to roads, bikeways, and sidewalks.
- Leveraging the proposed substantial investments in transit and transportation infrastructure.

The Penn American District Plan, presented as a 2050 objective, contains concepts and images that represent the vision. The vision is reflected in the proposed Chapter 21 of the Bloomington Code of Ordinances. The Penn American District Plan and Chapter 21 present a clear picture of the desired development outcome.

Key elements of the Penn American District Plan are illustrated in the drawing shown in Figure 2-1 below. The dotted black line indicates the Southtown Properties owned by Kraus-Anderson.

Figure 2-1

PENN AMERICAN DISTRICT PLAN KEY ELEMENTS



Source: Penn American District Plan.

This plan, as related to the Southtown properties, present a very high density level of development. Another version of the Penn American District Plan is contained in Figure 2-2 below, which is Figure 5.3: Future Development Concept – Birds-Eye View in the plan. The future development concept depicts the Southtown properties as a high density development. The building imagery is more closely related to high density office and residential buildings.

Figure 2-2

Figure 5.3 Future Development Concept - Birds-Eye View

Source: ESG, Architects, Inc.

Source: Penn American District Plan.

None of the existing buildings are identifiable in the development concepts. Implementation of this vision implies demolition of all existing buildings and relocation or elimination of over half a million square feet of retail businesses.

The plan’s vision for American Boulevard in the future is contained in Figure 2-3, which contains Figures 5-15 and 5-16 from the Penn American District Plan. The top image is the existing area at American Boulevard and Morgan Circle. The bottom drawing illustrates a future image of the same area. The building images are five-store office buildings on the north side of the street and four-story buildings on the south.

Figure 2-3

Figure 5.15 American Boulevard - Existing Condition

Figure 5.16 American Boulevard - Future Enhancements Concept

Source: Penn American District Plan.

Penn American District Plan Impacts

The Penn American District Plan identified some challenges that impact redevelopment of the Southtown properties. These include:

- **Access Restrictions**

  MnDOT is currently engaged in a study to evaluate the "vision layout" proposed for reconstruction of the I-494/I-35W interchange. The vision layout may reduce freeway access to 76th/77th Street, Lyndale Avenue, 82nd Street, and Penn Avenue. These access restrictions may alter traffic patterns within the district and result in increased traffic volumes on some streets.

  Comment: Local access restrictions at the four interchanges may result in reduced access to the area, which will reduce retail potential threatening the viability of the retail stores at Southtown Center.

- **Overhead Electric Transmission Line**

  An existing Xcel Energy overhead transmission line runs through the middle of the district. Burying the wiring is cost prohibitive. Development restrictions under the line and visual impacts create challenges to redevelopment of this area.

  Comment: The overhead transmission line bisects the largest potential development areas on the site. The Penn American District Plan does not address how this transmission line will be relocated or how much it would cost and who would pay for relocation.

- **Timing/Market Demand**

  The development horizon for the district extends to 2050. However, given the slow market recovery and competition from around the entire Metropolitan Area, redevelopment will likely occur in fits and starts until enough new development occurs to alter the character of the area.

  Comment: Market timing is an issue with mixed-use development. All of the proposed uses need to be market and financially feasible at the same time or the development will not be able to achieve financing.

Of the above issues, the Xcel overhead electric transmissions line has the most direct impact on redevelopment potential.

Other Impacts

Concurrent with implementation of the Penn American District Plan, two transportation projects (Orange Line BRT and reconstruction of the I-494/I-35W Interchange) are planned. Both of these projects will impact access and development potential of the Southtown properties.

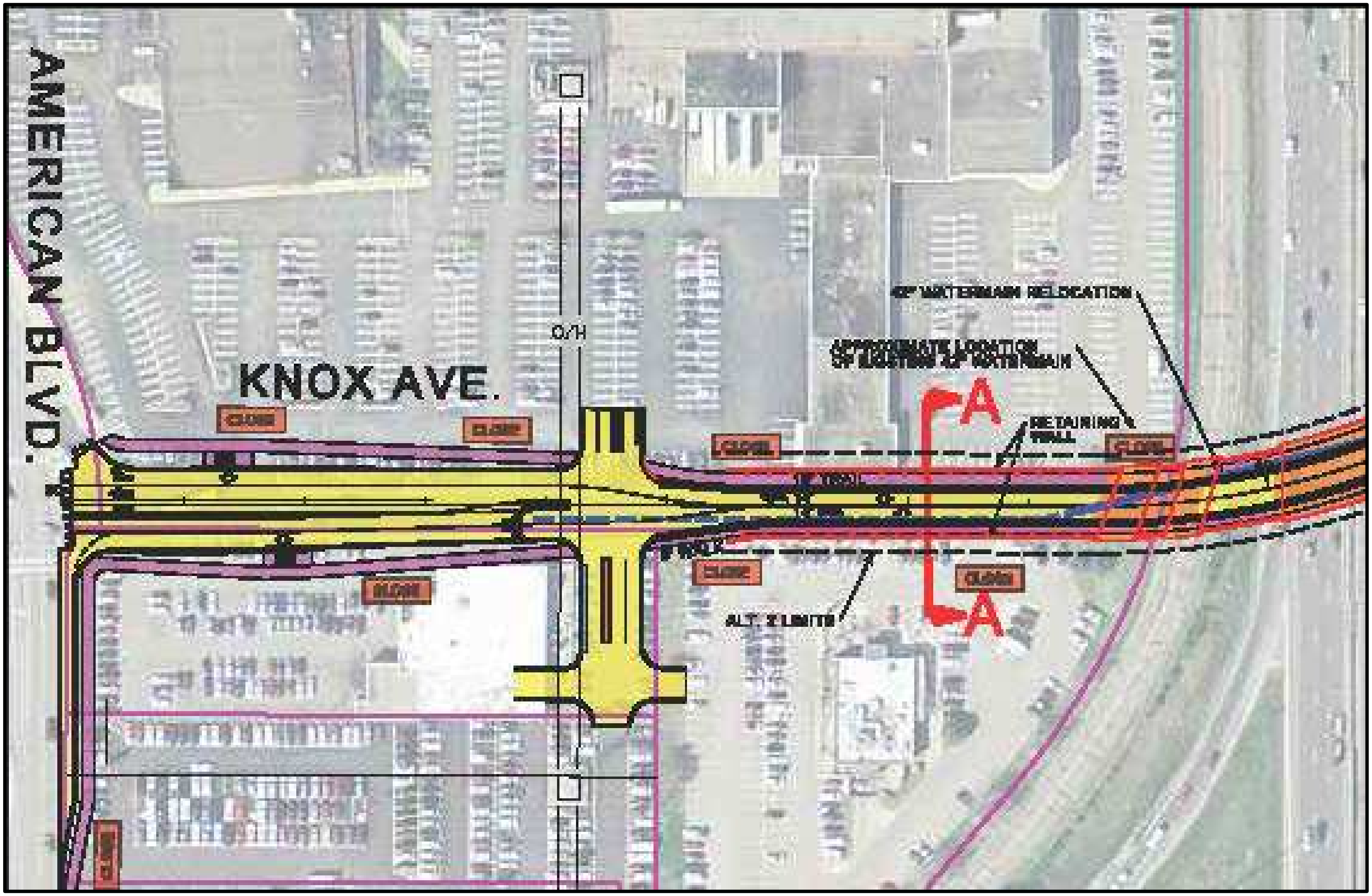
Orange Line BRT

The Knox Avenue route has been selected for the proposed Orange Line BRT and station location. Currently Knox Avenue is a private street providing the opportunity for a unified shopping center.

The proposed BRT line will pass under I-494 necessitating a depressed roadway on a portion of Knox Avenue. The proposed Knox Avenue alignment, contained in Figure 2-4, illustrates how

Figure 2-4

PROPOSED KNOX AVENUE BRT ROW



Source: SEH.

BRT will impact the Southtown properties. The existing curb cuts will be closed and replaced by an intersection located just north of the Xcel transmission line easements. This intersection will provide the only access between Southtown Center and the Richfield Bloomington Mitsubishi Motors and Lucky 13 parcels. The BRT be depressed north of this intersection to pass under I-494. The ROW appears to be about 80 to 140 feet wide depending on location. The Richfield Bloomington Mitsubishi Motors parcel will end up with dimensions of about 105 feet by 390 feet or 40,950 square feet and is less than the minimum lot size, which will be difficult to develop as an isolated parcel. Without the BRT ROW, the Richfield Bloomington Mitsubishi Motors and Lucky 13 sites could have easily combined with the Southtown Center parcel. This is impossible with the BRT as planned.

To accommodate BRT related development, Bloomington City staff have proposed two zoning options, shown on Figure 2-5 on the next page, for the Knox Avenue Station area: Option A, the staff preferred option, imposes three zoning districts (C-3, C-4 and C-5) on Southtown Center; and Option B which imposes only two zoning districts C-1 and C-3 on the site. These zoning districts have different development and land use criteria.

Interchange Reconstruction

Reconstruction of the I-494/I-35W intersection, while not part of the Penn American District Plan, will have impacts on Southtown Center that will need to be addressed within the requirements of Chapter 21.

The preliminary plans for the I-494/I-35W interchange reconstruction indicates that the expanded interchange will eliminate Southtown Drive from the westerly cul-de-sac near Penn Avenue east to south of American Boulevard. This will eliminate public street access from Southtown Drive to the north side of Southtown Center and the east side of the Lucky 13 site. The expanded I-494 ROW will also eliminate parking along the north side of Southtown Center.

Projected Development

The Penn American District Plan contains development projection for office, retail, hotels, and residential uses, which are contained in Figure 2-6 and projected changes in these uses contained in Figure 2-7.

Figure 2-6

Table 3.1 Projected Development by Land Use Type

Year	Office in s.f.	Retail in s.f.	Hotel in s.f.	Hotel Rooms	Residential Units
2010	657,000	829,000	0	0	256
2030	1,207,000	751,000	132,000	200	1,540
2050	1,581,000	600,000	200,000	300	2,312

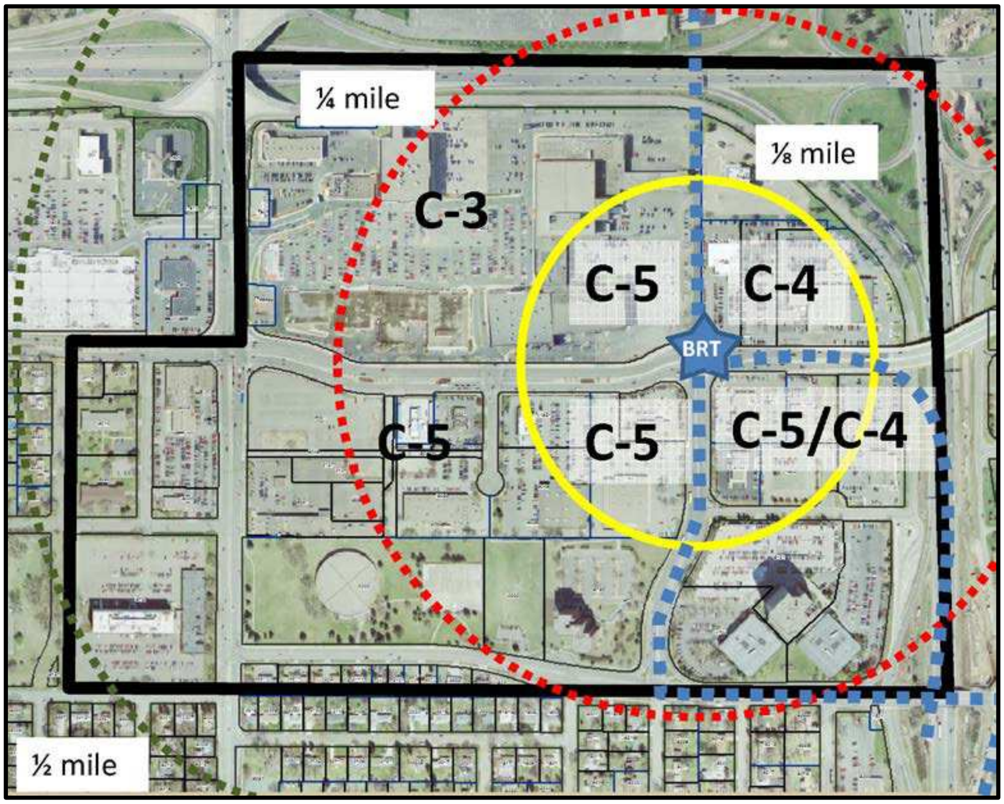
Source: City of Bloomington, 2013

The Penn American District Plan forecasts a decline in retail space from 829,000 square feet in 2010 to 751,000 square feet in 2030 and 600,000 square feet in 2050, as shown in Figure 2-6. Retail spaces declines by 79,000 square feet between 2010 and 2030 and an additional 151,000 square feet by 2050 for a total reduction of 229,000 square feet, as shown in Figure 2-7.

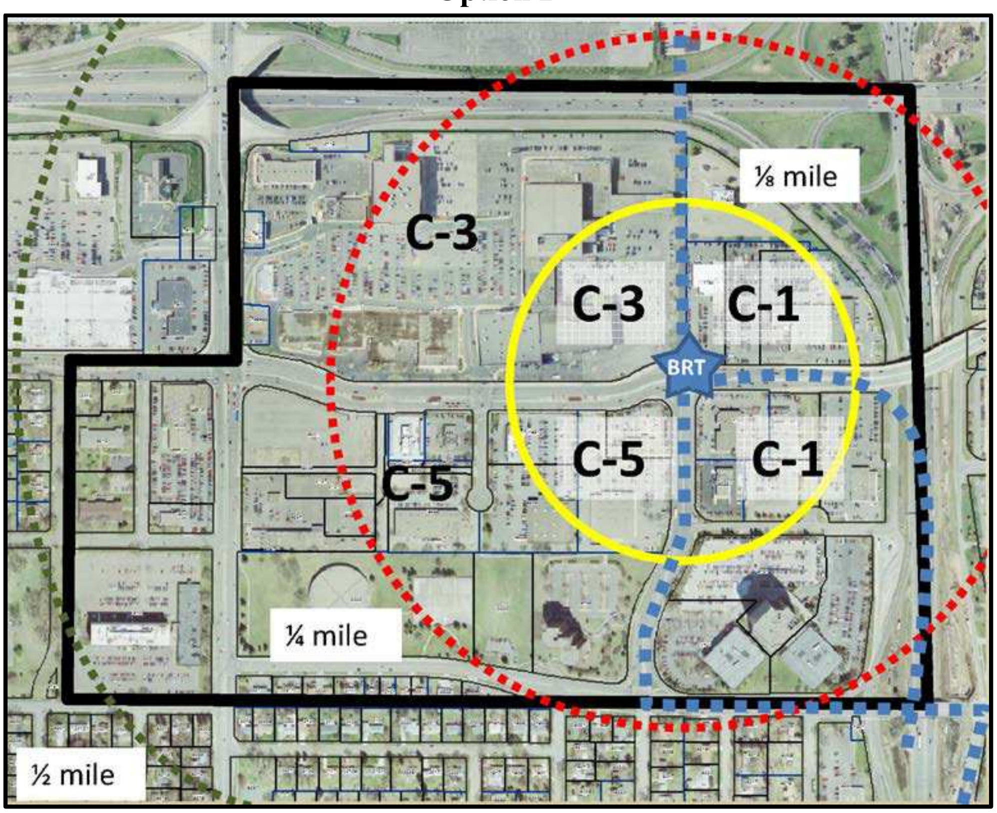
Figure 2-5

ORANGE LINE BRT ZONING OPTIONS

Option A



Option B



Source: City of Bloomington.

These are net reductions in retail space. The plan anticipates that buildings of some existing retailers will be demolished and new buildings will contain retail space. The Genesee development is an example.

Figure 2-7

Table 3.2 Projected Change in Development

Years	Office in s.f.	Retail in s.f.	Hotel in s.f.	Hotel Rooms	Residential Units
2010-2030	+550,000 *84%*	-78,000 *-9%*	+132,000	+200	+1,284 *502%*
2030-2050	+374,000	-151,000	+68,000	+100	+772
Total 2010-2050	+924,000 *141%*	-229,000 *-28%*	+200,000	+300	+2,056 *803%*

Source: City of Bloomington, 2013

Annual absorption estimates, contained in Figure 2-8 reflect the anticipated change in land use. Residential, office, and hotel uses are increasing and retail is declining. The magnitude of the net decline in retail indicates that retail land use at Southtown Center is intended to decrease. This will have a negative effect on Southtown Center. Southtown Center is successful due to its size and mix of retail stores. Any significant reductions in retail store space will diminish Southtown Center's appeal as a shopping destination, reducing its per unit sales productivity and value per square foot.

Figure 2-8

Table 3.3 Annual Absorption Averages, 2010-2050

Use	2010-2030	2030-2050	2010-2050
Residential (dwelling units)	64	39	51
Retail (square feet)	-3,900	-7,550	-5,725
Office (square feet)	27,500	18,700	23,100
Hotel (rooms)	200	100	300

Source: City of Bloomington, 2013

Chapter 21: Zoning and Land Development

Land use and development standards for each zoning district are contained in the proposed Chapter 21.

Zoning

Southtown Center and the Knox Avenue properties are currently one zoning district: CR-1 Regional Commercial. One set of requirements applies to the entire site.

There are two proposals for future zoning districts, shown in Figure 2-5. A staff recommendation (Option A) that splits the Southtown properties into three different zoning districts: C-3, C-4, and

C-5. An alternative plan (Option B) splits the Southtown properties into two zoning districts: C-1 and C-3. The four zoning districts are:

1. C-1: Freeway Office and Service District
2. C-3: Freeway Commercial Center District
3. C-4: Freeway Office District
4. C-5: Freeway Mixed-Use District

Each zoning district has slightly different regulations. Potentially, there are four zoning district regulations to be considered. Permitted uses for residential, office, and retail services contained in Chapter 21: Zoning and Land Development are shown in Table 2-1.

Table 2-1

ZONING DISTRICT LAND USES

USE TYPE	**ZONING DISTRICT**			
	C-1	**C-3**	**C-4**	**C-5**
RESIDENTIAL				
Residences				
Multiple-Family Residence		A	A	A
Townhouse/Rowhouse		A	A	A
Other Residential				
Nursing Home/Adult Care Home				A
OFFICE AND RETAIL/SERVICES				
OFFICE				
Home Occupation		P	P	P
Home Business		CA	CA	CA
Office, General	P	P	P	P
Office/Warehouse (in existence prior to 1/1/10)			P	
RETAIL/SERVICES				
Accommodations				
Hotel/Motel	P	P	P	P
Medical Facilities				
Laboratory, Medical or Dental	P	A	P	A
Office, Medical or Dental	P	P	P	P
Hospital	C	C	C	C
Motor Vehicle Services				
Integreated Fuel Sales	A		A	
Motor Vehicle Sales, Class IV	P	P	P	P
Motor Vehicle Sales, Enclosed	P	P		P
Recreation and Entertainment				
Health Club	P	A	A	A
Health Club (in existance in the C-4 district prior to 1/1/10)			P	
Recreation and Entertainment, Indoor	C	C	CA	C
Studio, Audio or Video	P	P	P	P
Restaurants and Food Service				
Private Food Service	A	A	A	A
Restaurant, with drive-through (including drive-in)	C		CA	CA
Restaurant, without drive-through (including take-out)	C	CA	CA	CA
Retail Sales and Services				
Bank or Financial Institution	P	A	A	A
Exterminating Shop		P		P
Firearms Dealer		CA		
Retail Sales and SErvices	A	P	A	P
Therapeutic Massage Enterprise	P	A	A	A

Source: Chapter 21.

It is interesting to note that there are only five uses that are permitted in all four zoning districts including:

- Office, General
- Office, Medical or Dental
- Studio, Audio or Video
- Hotel/Motel
- Motor Vehicle Sales, Class IV

Southtown Center's predominant land uses are retail and restaurant. Retail sales and services are permitted in C-3 and C-5 zoning districts and are accessory uses in C-1 and C-4 zoning districts. Restaurant, with drive-through, is a conditional use in the C-1 district, not permitted in C-3, and are conditional accessory uses in C-4 and C-5. McDonald's restaurant will become a non-conforming use under the proposed zoning code. Restaurant, without drive-through, are conditional uses in the C-1 zoning district and conditional accessory uses in C-3, C-4, and C-5 zoning districts. Conditional and conditional accessory uses must obtain a conditional use permit. The proposed Chapter 21 zoning code permits as of right offices, hotels, medical and dental uses, motor vehicle sales (Class IV), and studios.

The current CR-1 zoning district identify office, retail, restaurant, hotel, and auto dealers as permitted uses for all of the Southtown properties.

Site and Floor Area Criteria

Minimum floor area ratios in commercial zoning district range from 0.4 to 1.0, as shown in Table 2-2. Minimum floor areas range from 20,000 to 50,000 square feet per floor. Minimum site area ranges from 80,000 square feet for C-5 to 200,000 square feet for C-3 zoning districts. In the C-3 and C-5 Districts, at least 60 percent of building footprint area must be at least two stories in height.

Table 2-2

COMMERCIAL ZONING DISTRICT SITE CRITERIA

Zoning District	Floor Area Ratio		Building Floor Area	Impervious Surface Area	Site Width	Site Area
	Minimum	Maximum	Minimum	Maximum	Minimum	Minimum
C-1	0.4	1.0	20,000 sq. ft.	90%	200 ft. 250 ft. for corner sites	120,000 sq. ft.
C-3	0.5	1.0	50,000 sq. ft.	95%	200 ft. 250 ft. for corner sites	200,000 sq. ft.
C-4	0.4	2.0	20,000 sq. ft. 10,000 sq. ft. for restaurants	90%	200 ft. 250 ft. for corner sites	120,000 sq. ft.
C-5	1.0	1.5	20,000 sq. ft.	95%	200 ft. 250 ft. for corner sites	80,000 sq. ft.

Source: Chapter 21.

Impervious Surface Area

Southtown will be required to have a maximum of 95 percent impervious surface area. For the Southtown properties, this would result in the need to provide about 90,000 square feet (2.0 acres) of on-site impervious surface area. Southtown will be non-conforming for impervious surface area. Meeting this requirement will reduce parking spaces.

Building setback along public streets are 35 feet in the C-1, C-3, and C-4 zoning districts and 20 feet in the C-5 district, as shown in Table 2-3. Side minimum setbacks are 20 feet and rear setbacks are 30 feet. Side and rear setbacks are 10 feet greater for buildings over four stories. These ratios, when combined with the site area requirements, setbacks, and floor area ratios, will generally result in the need for structured parking on each site.

Table 2-3

COMMERCIAL ZONING DISTRICT SETBACKS

Zoning District	Along Public Street		Rear	Side	Abutting Residential
	Minimum	Maximum	Minimum	Minimum	Minimum
C-1	35 ft.	N/A	30 ft. 40 ft. for buildings over 4 stores in height	20 ft. 30 ft. for buildings over 4 stores in height	50 ft.
C-3	35 ft.	N/A	30 ft. 40 ft. for buildings over 4 stores in height	20 ft. 30 ft. for buildings over 4 stores in height	50 ft.
C-4	35 ft.	N/A	30 ft. 40 ft. for buildings over 4 stores in height	20 ft. 30 ft. for buildings over 4 stores in height	50 ft.
C-5	20 ft.	20 ft.	30 ft. 40 ft. for buildings over 4 stores in height	20 ft. 30 ft. for buildings over 4 stores in height	50 ft.
Source: Chapter 21.					

ROW and Building Setbacks

The Penn American District Plan and proposed Chapter 21 establish criteria for public and private streets and setbacks for buildings in the district. The total width of building setback and ROW requirements for private streets range from 120 feet in the C-1, C-3, and C-4 zoning districts to 90 feet in the C-5 district, as shown in Table 2-4. Building setbacks are proposed to be lower for the C-5 district, which will include the southeast corner of the Southtown Center parcel. Knox Avenue at this location is a private street serving adjacent parcels and terminating at Southtown Drive. Since Knox Avenue has been selected for an Orange Line route and station, the ROW needs have not been defined, but the street will need to accommodate both automobiles and BRT vehicles. Based on the Penn American District Plan and proposed Chapter 21, ROW needs would be 62 feet. Building setbacks would be 35 feet on each side of the street in the C-3 portion and 20 feet on each side in the C-5 district. How and where the BRT station will be accommodated is unknown as is its impact on adjacent development area.

Table 2-4

BUILDING SETBACK AND RIGHT-OF-WAY REQUIREMENTS

	Local/Private		Knox Avenue**		Penn Ave/American Blvd	
ROW/Setback	C-1, C-3, C-4	C-5	C-1, C-3, C-4	C-5	C-1, C-3, C-4	C-5
Building Setback	25	10	25	10	25	10
Sidewalk	10	10	10	10	10	10
Subtotal	35	20	35	20	35	20
Right-of-Way						
Boulevard	6	6	6	6	6	6
Parking	8	8				
Transit Lane			14	14	14	14
Drive Lane(s)	11	11	11	11	24	24
Median					5	5
Drive Lane(s)	11	11	11	11	24	24
Transit Lane			14	14	14	14
Parking	8	8				
Boulevard	6	6	6	6	6	6
Subtotal	50	50	62	62	93	93
Sidewalk	10	10	10	10	10	10
Building Setback	25	10	25	10	25	10
Subtotal	35	20	35	20	35	20
Total	120*	90*	132	102	163	133

* Add 20 feet for angle parking.
** Assumes two BRT lanes and two traffic lanes.
Source: Chapter 21 and Penn American District Plan.

ROW components, according to the Penn American District Plan, include boulevards, parking, and drive lanes. Boulevards are proposed at six feet for landscaping and to store snow in the winter. Snow storage is not needed on pedestrian-friendly retail streets because snow is removed after each snowfall. Parking cars is accommodated in either eight-foot parallel parking spaces or 18 foot angle parking spaces on each side of the street. Drive lanes are 11 feet wide. ROW is either 50 or 70 feet depending on parking style.

Building setback area begins at the ROW line and includes a 10 foot sidewalk, which is provided by an easement. Buildings are setback an additional 25 feet in C-1, C-3, and C-4 districts and 10 feet in the C-5 district. The result is a streetscape distance of 120 to 140 feet depending on parking style. Examples of different types of ROW are shown in Figure 2-9 (Figures 5.11, 5.12, and 5.13 from the Penn American District Plan). None of these examples contain a 35-foot building setback as required for C-1, C-3, and C-4 zoning districts.

Figure 2-9

STREETSCAPE DESIGN CONCEPTS

Figure 5.11 Type 1: District Arterials (Penn Avenue, American Boulevard, W. 82nd Street)

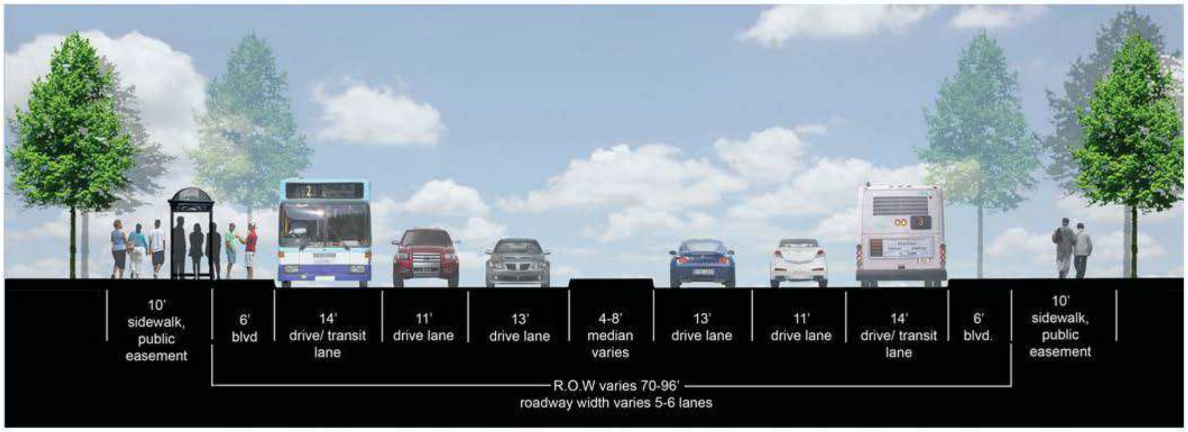


Figure 5.12 Type 2: District Collectors (Knox Avenue)

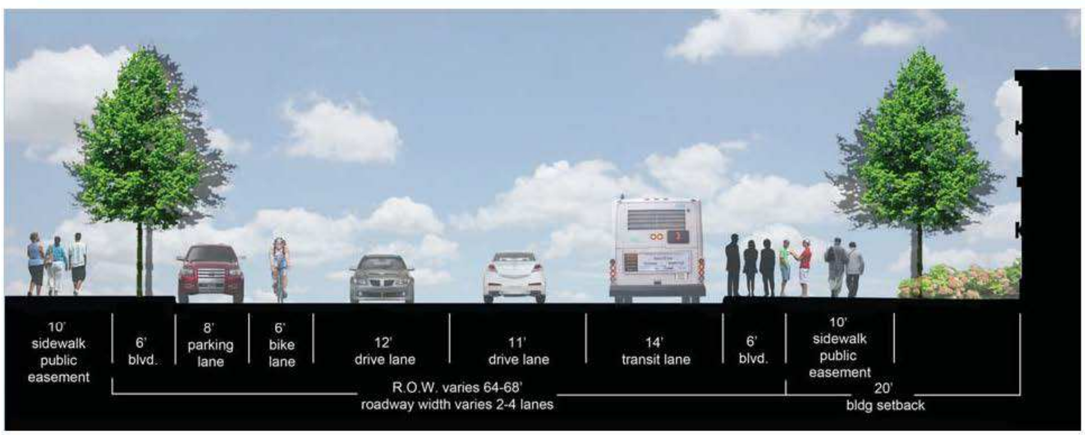
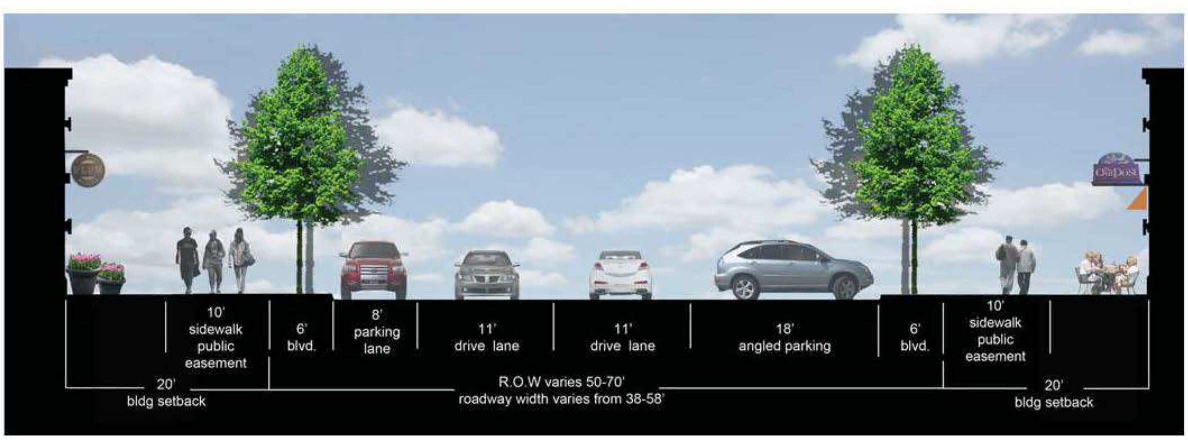
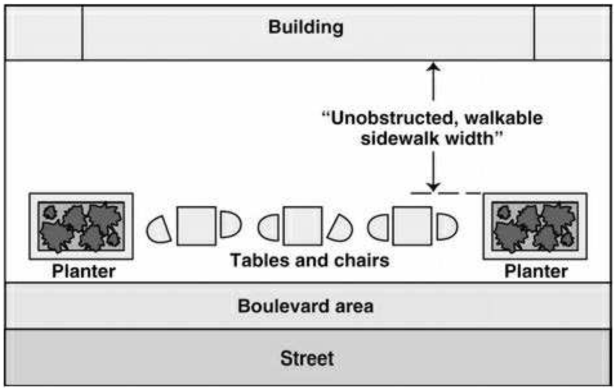


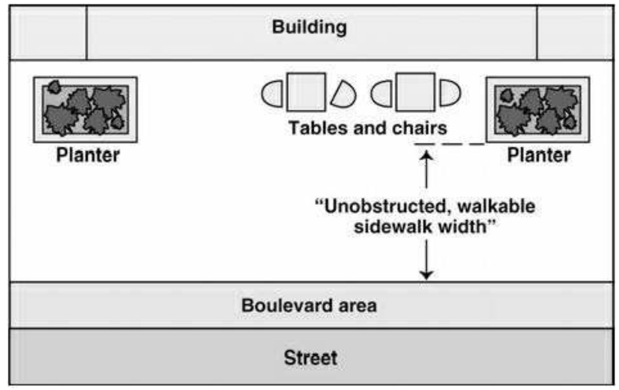
Figure 5.13 Type 3: Local and Private (W 80 1/2 Street, Morgan Avenue)



Source: Penn American District Plan.

The graphic illustrations of unobstructed sidewalk width (shown below), contained in Section 21.301.04 of Chapter 21, do not appear to reflect how sidewalks would interface with the 35-foot building setback and retail stores and display windows in the C-1, C-3, and C-4 zoning districts. In these districts, the storefronts would be 15 feet further away from the building line shown in the illustration. These illustrations appear to relate only to the C-5 zoning district, which is likely to cover only a small portion of the Southtown site.





The streetscape and setback requirements required in the C-1, C-3, and C-4 zoning districts are inconsistent with "main street" type retail developments. Retail tenants desire spaces where pedestrians and shoppers are close to the store front where merchandise is displayed. A review of the site plans for four pedestrian-friendly lifestyle centers in the Metro Area found much narrower streetscapes as shown below.

Retail Area	Streetscape Width
Shoppes at Arbor Lakes	90 Feet
Woodbury Lakes	93 Feet
West End	50-60 Feet
Promenade	80 Feet

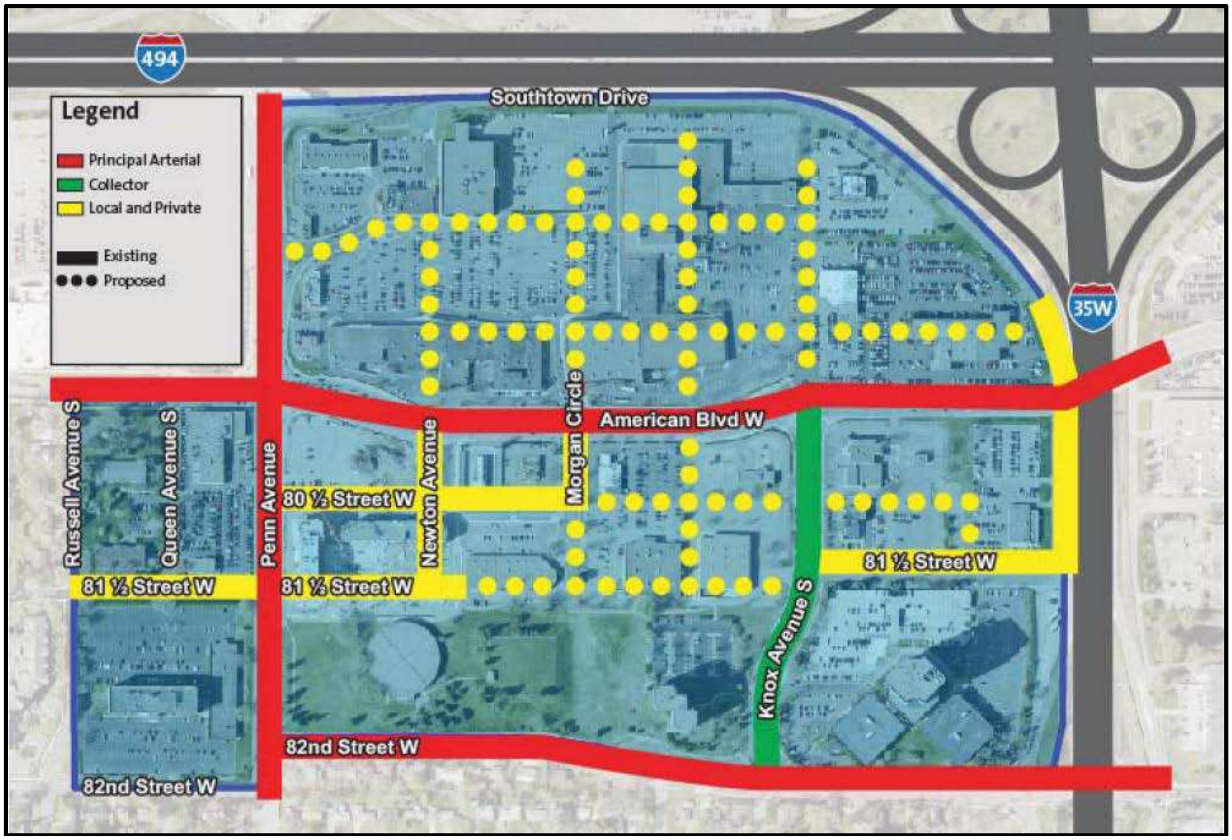
Each of these shopping centers accommodate drive lanes, parking, and sidewalk in a much narrower area conducive to pedestrian circulation and shopping. These streetscape widths are consistent with other similar shopping centers in the United States.

Road Classification

The Penn American District Plan envisions creating two east/west streets and four north/south Streets on the Southtown properties, as shown in Figures 5.10 and 5.14 in the plan. Figure 5.10: Road Functional Classifications is shown in Figure 2-10.

Figure 2-10

FIGURE 5.10: ROAD FUNCTIONAL CLASSIFICATIONS



Source: Penn American District Plan.

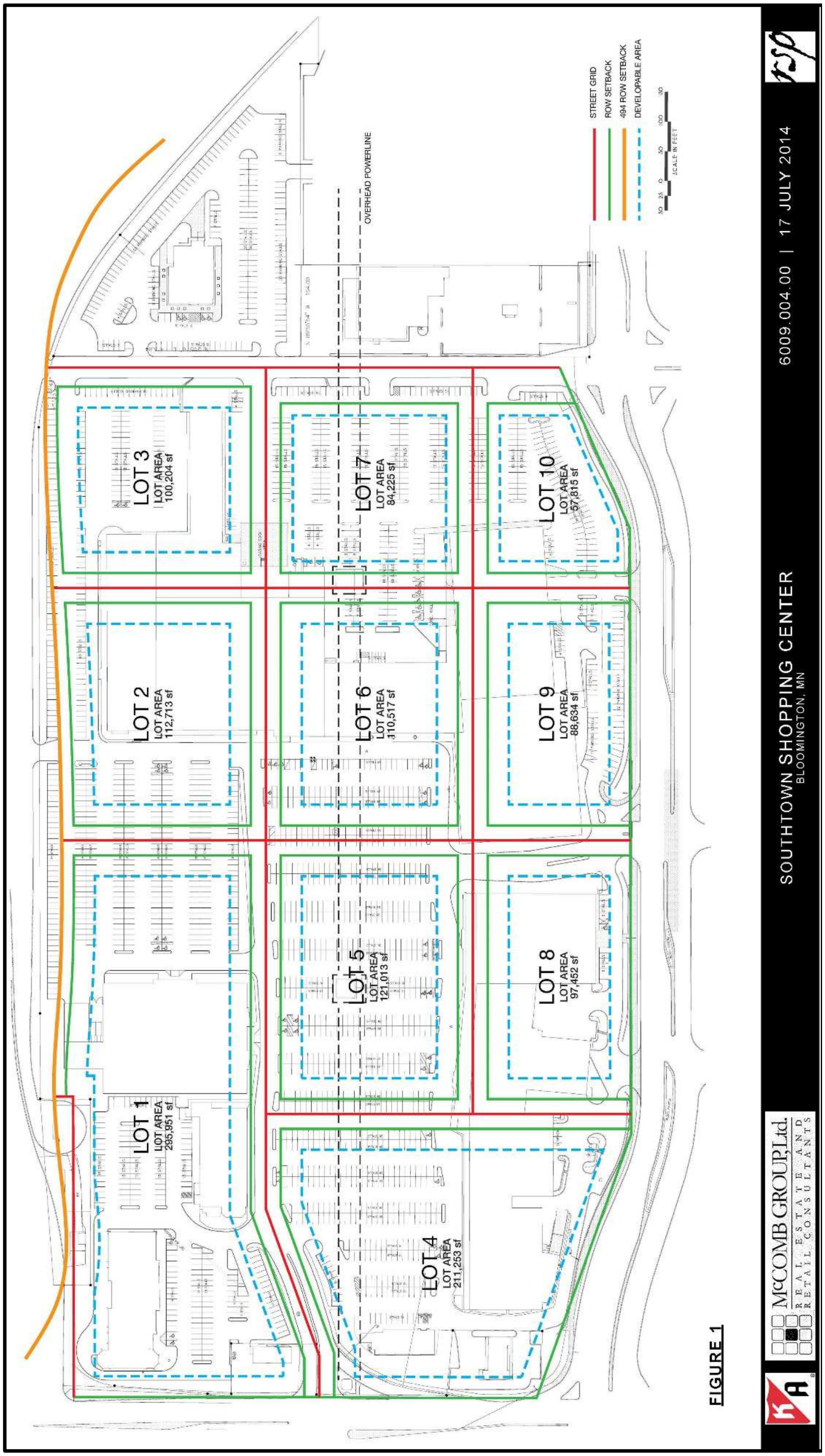
While this figure is illustrative, the plan's intent is demonstrated by the recommendation on page 6.3 of the Penn American District Plan to "construct streets as shown in Figure 5.14." Figure 2-11 demonstrates how difficult it will be to adapt Southtown Center to the Penn American District Plan vision in Figure 2-1. The existing buildings are in conflict with the street grid.

The Southtown site and Knox Avenue properties are bisected by two east/west streets, each of which pass through existing buildings. Three of the proposed north/south streets also pass through existing buildings. These streets would be an extension of the Bloomington Street grid and would pass through existing buildings: Herberger's, Bed Bath & Beyond, T.J. Maxx, Toys R Us, Timberlodge, Mattress Firm, Dress Barn, and Southtown Bowl. These new streets, their ROW, easements, and building setback reduce developable area.

The parcel sizes that would result from the proposed street grid are shown in Figure 2-11, which includes the I-494 setback resulting from the I-494/I-35W interchange reconstruction. Figure 2-11 also reflects the Xcel transmission line easement, which bisects Lots 4, 5, 6, and 7. Buildings are not permitted in the easement area.

Figure 2-11

SOUTHTOWN CENTER CHAPTER 21 STREET GRID



Most of the Southtown Center site would be zoned C-3, which requires a minimum site area of 200,000 square feet. The street grid creates several blocks (lots) that are below that size. Estimated lot sizes range from 88,634 square feet to 295,951 square feet for the C-3 zoning district area, as shown in Table 2-5. Only two of the lots (1 and 4) that would remain after streets and related ROW were provided meet the minimum site size for C-3 sites in Chapter 21. Lots 7 and 10 in the southeast corner of the Southtown parcel are assumed to be zoned C-5, which has a minimum site size of 80,000 square feet. The estimated size of Lot 10 is about 57,815 square feet, less than the minimum lot size.

The lot sizes in Table 2-5 total 1,279,777 square feet or 29.4 acres. The Southtown site, shown in Figure 2-11, includes two parcels that are not legally part of Southtown Center. These parcels, Wedding Day Diamonds and Jiffy Lube, contain a total of 28,579 square feet. Adding these parcels to Southtown Center's parcel size of 1,609,224 results in a total size of 1,637,803 square feet or 37.6 acres. Deducting the estimated 1,279,777 square feet of lot area results in ROW area of 313,854 square feet or 7.2 acres, or 19.5 percent of the Southtown Center site. Building setback area totals 438,950 square feet or 10.1 acres leaving developable area of 840,827 square feet or 19.3 acres. This analysis indicates that a block grid based on the Penn American District Plan would result in 752,804 square feet (17.3 acres) or 46.0 percent of the site being devoted to ROW and building setbacks. The above analysis, while illustrative, demonstrates the impact of attempting to impose the recommended street grid on Southtown Center.

Table 2-5

SOUTHTOWN CENTER
CHAPTER 21 LOT SIZE
(Square Feet)

Lot	Zoning	Lot Size	Developable Area	Land Devoted to ROW	Land Devoted to Setback
1	C-3	295,951	203,314	31,629	92,637
2	C-3	112,713	70,262	34,242	42,451
3	C-3	100,204	60,890	34,774	39,314
4	C-3	211,253	150,828	26,891	60,425
5	C-3	121,013	76,578	37,739	44,435
6	C-3	110,517	68,563	35,967	41,954
7	C-5	84,225	62,603	43,642	21,622
8	C-3	97,452	57,053	23,390	40,399
9	C-3	88,634	50,785	22,455	37,849
10	C-5	57,815	39,951	23,125	17,864
Total		1,279,777	840,827	313,854	438,950

Source: McComb Group, Ltd.

ROW and Setback Challenges

The proposed Chapter 21 provides that: "All setbacks from public streets or proposed public streets must be measured from the planned widened rights-of-ways in accordance with the Master Street Plan of the City."

Figure 2-11 illustrated the impact of imposing a street grid on Southtown Center. Many of the buildings would have to be removed to implement the street grid. If, however, the existing drive aisles at Southtown Center were to be considered private streets by the proposed Chapter 21, the site becomes non-conforming due to setbacks. The existing drive aisles and building setbacks range from about 40 to 50 feet in width, less than the desired 120 feet for a C-3 zoning district. As a result, all the buildings on the Southtown Center parcel are non-conforming as to building setback from the street center line. Building 200 and Southtown Bowl are set too far back and the other buildings are too close to the street.

The objective of the Penn American District Plan is to increase density in the district. The central parking lot at Southtown Center represents the largest infill development opportunity at Southtown Center. Assuming that Herberger's, Kohl's, and the buildings along the north side of American Boulevard will remain, the area needed to create street ROW and zoning code building setbacks will have to come from the parking area. The impact on Southtown Center's parking lots is illustrated on Figure 2-12, which show in yellow the parking spaces that will be consumed by ROW and building setbacks required by Chapter 21.

Parking spaces lost to increased ROW and building setbacks in the central parking lot, east of Kohl's, and along I-494 total 743 spaces, as shown in Table 2-6. The building setbacks are measured from the fronts of the existing stores. New on-street parking space could add 167 spaces resulting in a net loss of 576 parking spaces. The Xcel transmission line easement passes through the developable area about 20 feet south of the setback line. New development cannot be considered due to the easement location.

Table 2-6

**PARKING SPACES REQUIRED
FOR ROW AND BUILDING SETBACKS**

Area	Parking Spaces
Central Parking Lot	466
East of Kohl's	135
I-494 Reconstruction	142
Subtotal	743
Less: New On-Street Parking	(167)
Net New Parking Spaces	576

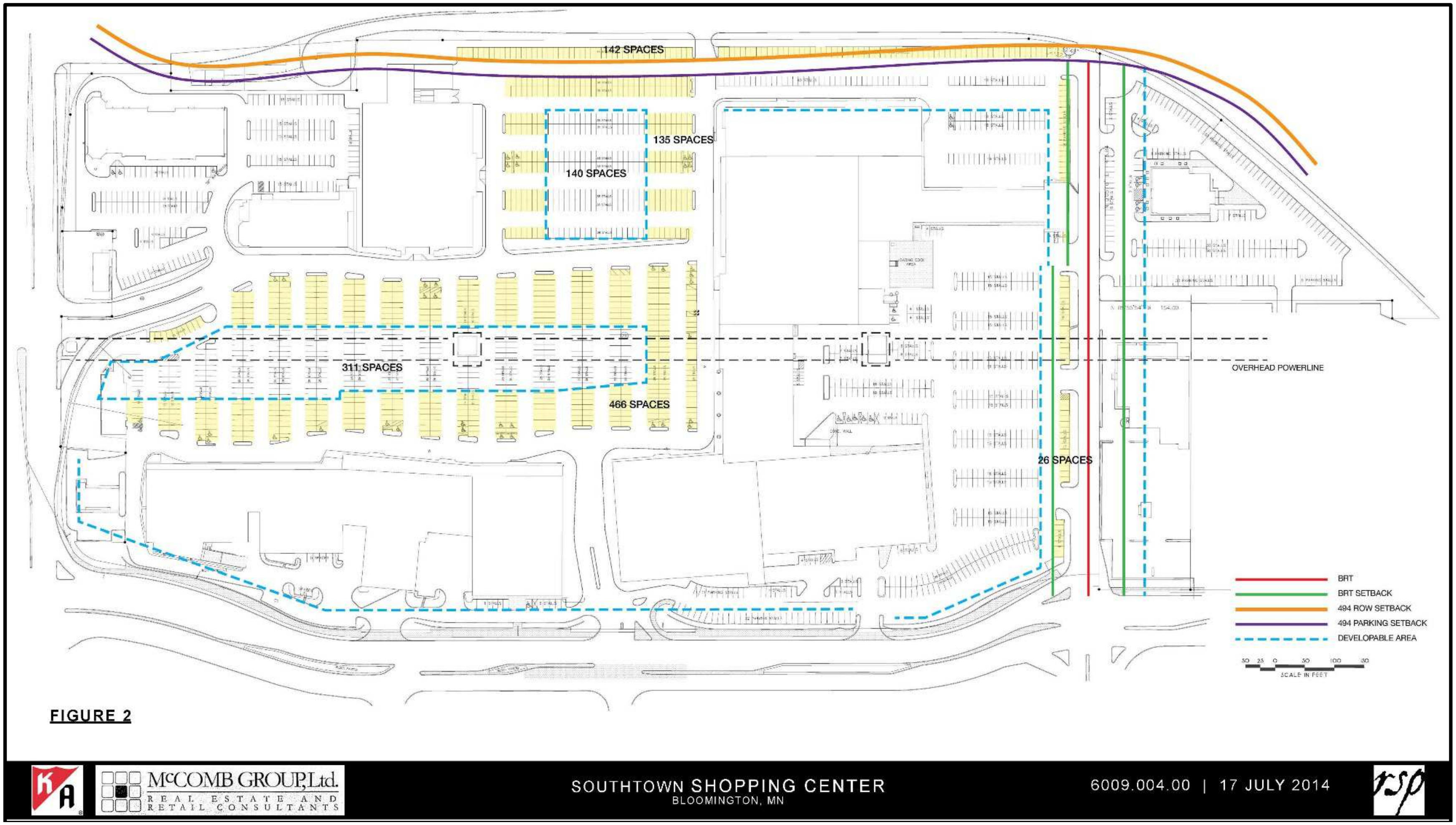
Source: McComb Group, Ltd.

The result is that about 576 parking spaces have been lost by implementing the Penn American District Plan and Chapter 21 ROW and setback requirements. This is over one-quarter of Southtown Center's parking spaces. These spaces will need to be replaced before new development can occur. Due to retailer visibility requirements in leases, the replacement spaces will need to be below grade.

Imposing Chapter 21 provisions on Southtown Center would make the site non-conforming for parking spaces and also reduce the parking ratio below the ratio required in anchor store leases.

Figure 2-12

ROW AND SETBACK REQUIREMENTS ON SOUTHTOWN CENTER



Case 10940ABCDEFGHI-14
Penn American Rezones

New Development Potential

New development potential is limited by the anchor store leases at Southtown Center and Xcel transmission line easement. Anchor store leases contain approval rights for anchor stores of changes to the common area and/or visibility from I-494. The Xcel transmission line easement prohibits construction of buildings in the easement area. If these restrictions did not exist, development could occur in the central parking lot and the area east of Kohl's.

These areas are best suited for small retail stores less than 5,000 square feet. Retail store trends have been to reduce space depth and increase frontage so that small stores have more exposure. Buildings in these two areas would likely be 60 to 65 feet deep. The central parking lot could accommodate 36,000 to 39,000 square feet, as shown in Table 2-7. This development would eliminate about 160 parking spaces and create demand for 144 to 156 parking spaces. The buildable area remaining east of Kohl's could accommodate about 27,000 to 28,600 square feet of new development. This would eliminate 140 parking spaces and create demand for 108 to 114 spaces. New retail space would total 63,000 to 67,600 square feet. Between 252 and 270 parking spaces would be needed to support this new space.

Table 2-7

CENTRAL LOT NEW DEVELOPMENT

Area	Square Feet		
Central Parking Lot	36,000	-	39,000
East of Kohl's	27,000	-	28,600
Total	63,000	-	67,600
Parking Spaces @ 4/1,000 sf	252	-	270
Parking Spaces Lost	300	-	300
New Parking Spaces	552	-	570
Chapter 21	53	-	56
Total	605	-	626

Source: McComb Group, Ltd.

Increasing density on the Southtown Center site by 63,000 square feet creates a need for 552 new parking spaces in addition to the 576 spaces eliminated by ROW and building setback requirements. Adding 67,600 square feet of retail space creates the need for 570 parking spaces. This is a total of 1,128 to 1,146 parking spaces.

These developments would be on separate lots, which would result in parking ratios of more than 4.0 spaces per 1,000 square feet. Applying the Chapter 21 parking requirements to each of these parcels would add 53 to 56 spaces. This would bring total spaces needed to 605 to 626. Adding additional density to these two developments would further compound the issues associated with providing parking.

BRT Site Impacts

BRT ROW and access changes to Southtown Center will impact parking and access to the Herberger's and Toys R Us truck dock. The proposed access road enters at a parking row for 30 cars. These spaces will be eliminated to provide entrance drive for customers and trucks. This will reduce the parking inventory by 30 spaces. Planned demolition of the Kia building would permit adding five rows of 15 parking spaces each for a total of 75 new parking spaces. Setback requirements along Knox Avenue will eliminate 26 existing parking spaces. The net effect is to reduce the parking potential in this area by 56 spaces.

The area east of Herberger's and Toys R Us, and Lucky 13 and Richfield Bloomington Mitsubishi Motors east of Knox Avenue represent another large infill opportunity at Southtown Center. At the present time, these properties are contiguous and under one ownership. The proposed BRT ROW significantly alters the development opportunity by severing the two east parcels from Southtown Center. The ROW and building setback requirements required by Chapter 21 leave reduced developable area and constrained access.

The Richfield Bloomington Mitsubishi Motors parcel is currently about 150 feet deep from the Knox Avenue curb line. Setbacks from Knox Avenue resulting from the BRT ROW will require about 60 feet and a rear lot setback of 20 feet will leave a buildable depth of about 35 feet. The BRT plan contains a new street ROW at the north end of this lot about 50 feet wide, which reduces the site size by about 50 feet. The site is reduced from 75,066 square feet contiguous to Southtown Center to a freestanding lot with about 39,600 square feet that is separate from Southtown Center. The public access to this site is into an existing building, which will have to be demolished to provide access to the parcel. This is below the minimum site size of 120,000 square feet in a C-1 and C-4 zoning district, rendering the site unusable when the BRT line is built. As a freestanding site after the BRT is constructed, the site has limited uses due to 35-foot wide buildable area and limited opportunity to provide suitable parking.

Development of the triangular Lucky 13 parcel is also severely diminished by the BRT ROW. The current site has about 129,436 square feet and is adjacent to Southtown Center. BRT ROW will reduce the site to about 107,450 square feet with about 96,560 square feet of buildable area as a freestanding lot. Development of triangular lots is more challenging than rectangular lots. Reducing lot size and physically separating it from Southtown Center increases these challenges.

Mixed-Use Development

The Penn American District Plan requires that each building have second level space. This implies vertical mixed-use. The mixed-use development challenge is for two or more uses to be market and financially feasible at the same time. Each of the uses must be compatible with Southtown's primary use, which is retail. Based on the current retail uses and building site locations and likely potential development locations, Southtown does not represent a good residential location since it lacks residential amenities.

The Penn American District Plan suggests that an average of 27,500 square feet of office space could be added annually between 2010 and 2030 for a total of 550,000 square feet. This office development objective must be considered in light of the existing office market conditions in Bloomington and future prospects.

Bloomington Office Market

Bloomington's multi-tenant office market consists of 58 buildings with over 7.9 million square feet in Class A, B, and C buildings at the end of 2013 based on Cushman & Wakefield/Northmarq information. Forty-four buildings are located in the Bloomington portion of the Southwest submarket west of I-35W. Fourteen of these buildings are located in the South/Airport submarket, which includes buildings located east of I-35W in Bloomington.

Bloomington – West has 6.1 million square feet of multi-family tenant office space with almost 1.0 million square feet of available vacant and sublease space available, as shown in Table 2-8. Allowing for a 5.0 percent vacancy rate, indicates that 690,630 square feet would need to be absorbed to reach a 5.0 percent vacancy rate. During the eight-year period 2006 through 2013, average annual net absorption was only 57,000 square feet indicating there is a 12-year supply of office space in the Bloomington--West office buildings. Two-thirds of the available space is located in Class A buildings with 31 percent located in Class B buildings. Class B buildings have the highest vacancy rate at 22.7 percent; while the Class A buildings have a 14.6 percent vacancy rate. The Bloomington--West area overall vacancy rate is 16.2 percent.

The Bloomington--East submarket contains over 1.8 million square feet of multi-tenant office space with available space totaling almost 300,000 square feet for a vacancy rate of 16.5 percent. Average annual absorption over the past eight years was about 2,100 square feet annually. A normal 5.0 percent vacancy rate would be about 90,582 square feet indicating that about 208,000 square feet would need to be leased to reach a 5.0 percent vacancy rate. Based on the annual average net absorption over the last eight years, it will take almost 100 years to achieve a vacancy rate of 5.0 percent.

Table 2-8

BLOOMINGTON OFFICE
AVERAGE ANNUAL ABSORPTION; 2006 TO 2013
(Square Feet)

Area / Building Class	Total Office Space	Vacant & Sublease	2006-2013 Net Office Absorption	2013 Vacancy Rate
Bloomington--West				
Class A	4,655,365	678,902	66,844	14.6 %
Class B	1,361,318	309,273	(13,970)	22.7
Class C	128,449	9,712	4,132	7.6
Total	6,145,132	997,887	57,006	16.2 %
Bloomington--East				
Class A	429,532	124,624	(6,980)	29.0 %
Class B	891,027	111,703	4,131	12.5
Class C	491,096	62,670	4,945	12.8
Total	1,811,655	298,997	2,096	16.5 %

Source: Cushman Wakefield/Northmarq, and McComb Group, Ltd.

In the South/Airport submarket, Mall of America is constructing a multi-tenant office building with approximately 180,500 square feet as part of its expansion of Mall of America. The amount of time required to absorb this building could be lengthy based on absorption trends at the two latest large office buildings in Bloomington. Two Market Pointe, which opened in 2008 with 236,000 square feet, did not reach a 95 percent occupancy rate until 2013, indicating a five-year absorption period. Normandale 8200, with 274,050 square feet, opened in 2009 and reached a 90 percent occupancy level in 2013, indicating a four-year absorption period. This is a less than optimal absorption period for new office buildings.

Corporate development activity in the Metropolitan Area will increase vacancy in multi-tenant office buildings over the next two- to three-year period. Both Wells Fargo and United Health Group, Inc. are building major corporate office campuses. As these buildings are completed, these companies will vacate leased space in multi-tenant buildings. The July issue of *Northmarq Compass Report* indicated that Wells Fargo will be vacating 60,000 square feet in One Market Pointe in Bloomington and could vacate another 60,000 square feet at South Pointe Office Center. This does not include the large occupancy at Wells Fargo Tower, which will also lose a 49,000 square foot tenant in the 4th Quarter of 2014. United Health Group is planning to vacate 120,000 square feet at One Market Pointe in addition to 300,000 square feet at Lincoln Center in Edina. By 2017, the company is expected to vacate up to 1.4 million square feet of space in the Southwest and West submarkets. These large vacancies will have a depressing effect on the office market in Bloomington.

The *Northmarq Compass Report* identified several large blocks of space that are available in office buildings in Bloomington and Richfield including 200,000 square feet of sublease space in Best Buy's headquarters in Richfield, 200,000 square feet at One Market Pointe in Bloomington, 125,000 square feet by year end at Wells Fargo Tower, 58,000 square feet at Northland Plaza in Bloomington, and 50,000 square feet at Minnesota Center. These large blocks of space total 633,000 square feet. These vacant spaces exceed the 550,000 square feet the Penn American District Plan anticipates between 2010 and 2030.

The large amount of existing vacant space combined with the large blocks of office space that are known to be coming to market in Bloomington will have a depressing effect on rental rates for years to come. Current Class A market rents in the South/Airport area are indicated to be about $12.25 per square foot; while Class A market rents in the Southwest submarket in the premier buildings are $18.00 per square foot. Whether these rates will hold with the large amount of available space coming to market is questionable. In addition, the current office rents are below those needed to support new multi-tenant office construction.

Infill Development Opportunities

Increasing density at Southtown Center will be challenging based on the requirements of Chapter 21, combined with tenant lease expiration dates and the Xcel Energy easement, which limits redevelopment opportunities. Two potential sites exist: the parking lot east of Kohl's and the area east of Herberger's/Toys R Us, including the property east of Knox Avenue.

The area east of Kohl's could accommodate an infill building. The challenges associated with developing that area and complying with the Chapter 21 requirements are illustrated by the following example.

Buildable area on this site, as shown in Figure 2-12, is about 170 feet by 210 feet. Adding setback requirements results in a lot size of about 225 feet by 305 feet or 68,625 square feet. A minimum floor area ratio of 0.5 results in a minimum building size of 34,313 square feet. This lot would be non-conforming since it is less than 200,000 square feet.

Based on market acceptable bay depths of 60 feet, this lot could accommodate a u-shaped building with about 170 feet fronting on the central parking area and two wings extending 210 feet north, one facing Kohl's and the other facing Herberger's. The portion of the building facing the central parking area would have about 10,200 square feet of prime retail frontage. The two wings would each have about 9,000 square feet of secondary retail space. Total first floor space could be about 28,200 square feet. Based on the requirement that upper levels must be 60 percent or more of the first floor building area, the minimum upper level size is 16,290 square feet. This requirement could be met by having a second story on the front portion of the building and one of the wings. As a result, the second level would be about 19,200 square feet. Total building size would be about 47,400 square feet, as shown in Table 2-9. Rentable area of both the retail area and the office space will be reduced to accommodate an office lobby, elevator and exit stairs that are not needed in one story buildings. This increases the per square foot cost of the rental area.

Table 2-9

BUILDING SIZE AND PARKING FOR ROW AND BUILDING SETBACKS

Floor	Square Feet	Parking
First	28,200	137
Second	19,200	67
Total	47,400	204
Parking Lost		
Building Footprint		140
ROW & Setbacks		135
Total		479

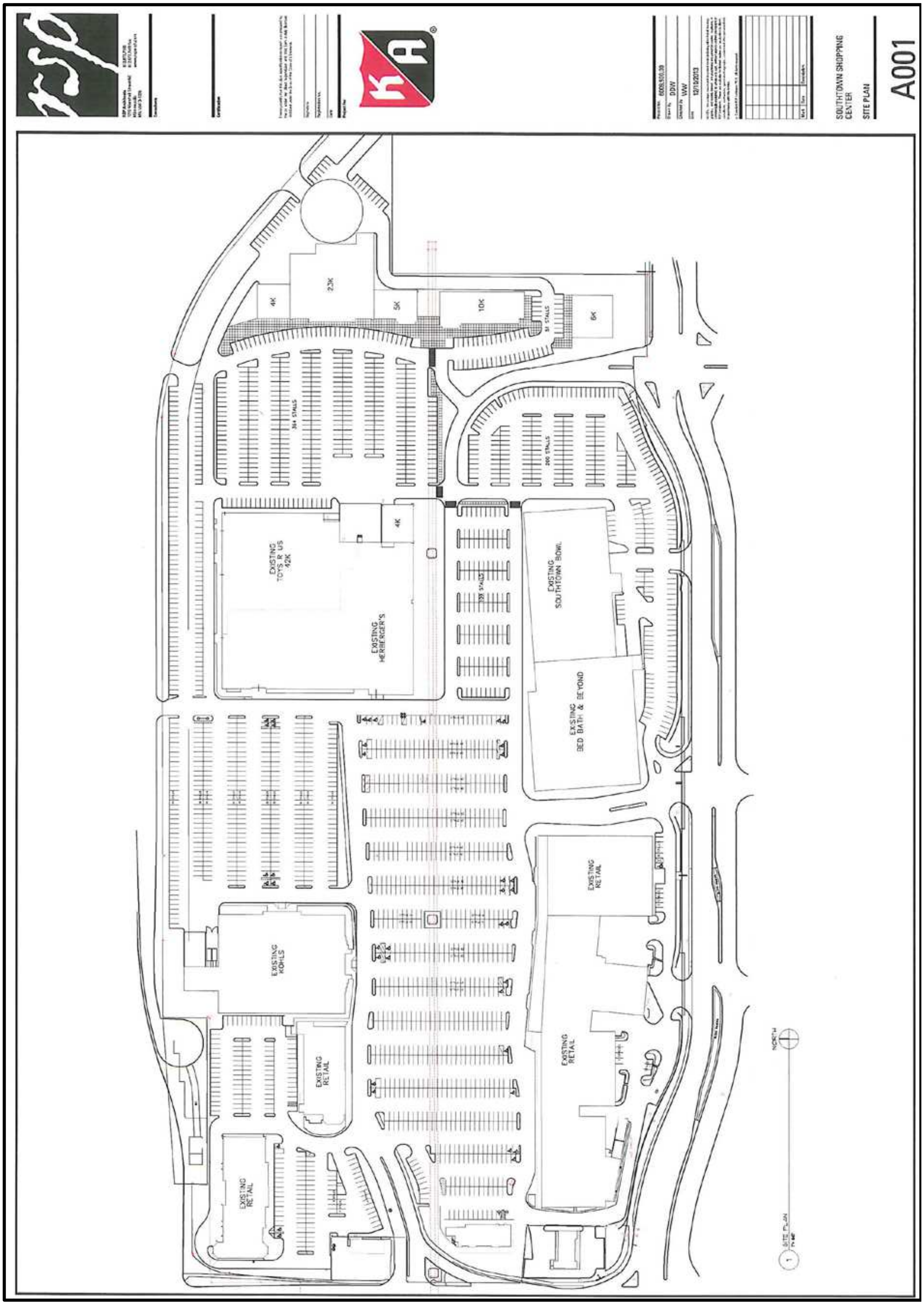
Source: McComb Group, Ltd.

Based on Chapter 21, the parking requirement for this building would be 204 spaces. The building foot print would remove 140 spaces. This new lot would have to provide ROW and setback areas from Kohl's and Herberger's, which will remove about 135 spaces. This results in a need for 479 parking spaces or 10.1 spaces per 1,000 square feet of new space. These spaces would need to be provided underground. Providing 479 parking stalls would require a three level underground parking garage with about 160 spaces per level. An underground parking garage would be very expensive.

Office space above retail stores is generally considered Class B space, which consists of older, lower quality buildings. This type of space competes with older, lower quality office buildings. Class B market rents do not support construction of new Class B space. The Class A market demands larger floor plates, typically 22,000 to 25,000 square feet. These are the types of buildings illustrated in Figure 2-3. The floor plates of these buildings are typically 110 to 120 feet or more deep, which results in spaces that are too deep for small retail tenants.

The area east of Herberger's/Toys R Us including the Richfield Bloomington Mitsubishi Motors and Lucky 13 parcels is a site that Kraus Anderson Realty has planned for development for some time. A potential development for this area is shown in Figure 2-13. The planned BRT ROW and tunnel under I-494 significantly reduces the development potential of this area.

Figure 2-13
POTENTIAL KNOX AVENUE DEVELOPMENT



Redevelopment Implementation

The example of adding only 47,400 square feet of density in the area east of Kohl's and the required 479 parking spaces demonstrates the financial burden imposed by infill development. Increasing density by demolishing existing buildings to erect new, larger buildings would require removing economically viable buildings, which dramatically increases development costs.

Redevelopment activities of the type envisioned for the Southtown area typically involve significant public sector financial contributions to the development. TIF is one of the largest sources of public financing. The case study communities all used TIF to assist with redevelopment of blighted property.

Southtown Center's 99.4 percent occupancy rate demonstrates that it is an economically viable shopping center and unlikely to be identified as blighted. It is unlikely that Southtown Center will qualify for TIF under Minnesota law.

Summary

The concepts and vision of the Penn American District Plan and the proposed Chapter 21 regulations, when applied to Southtown Center, result in the site and its buildings becoming non-conforming in many different ways.

The Penn American District Plan images and Chapter 21 regulations are inconsistent with the maintenance and/or creation of a successful retail area. Regulations related to non-conformities will limit or possibly prevent Southtown Center from adapting to future needs of existing or new tenants. The images, comprehensive design guidelines, and regulation of the Penn American District Plan and Chapter 21 are more consistent with an office district than a retail area.

Chapter III

SHOPPING CENTER REDEVELOPMENT CASE STUDIES

Several new retail mixed-use developments have been completed in the Twin Cities. These redevelopments can provide valuable insights into public sector costs associated with redevelopment. Retail mixed-use redevelopments selected for case studies include Excelsior and Grand, West End, Brookdale Center, Apache Plaza, Wayzata Bay Center, and Genesee, which were facilitated with financial assistance by the public sector. These redevelopments and the public costs associated with them are described in this chapter.

SUMMARY OF FINDINGS

Several retail mixed-use redevelopments have been completed in the Twin Cities. These redevelopments can provide valuable insights into public sector costs associated with redevelopment. Redevelopments selected as case studies are listed in Table 3-1. All of the redevelopments occurred on sites that were in transition or contained obsolete uses. Brookdale Center, Apache Plaza, and Wayzata Bay Center were failing enclosed mall shopping centers with high vacancy rates and declining occupancy. Excelsior and Grand was a deteriorated commercial area; and West End was an obsolete warehouse and tennis club. The Genesee site was occupied by an auto dealership.

None of the case studies involved redevelopment of a successful shopping center or commercial area.

Retail and residential are the largest mixed-use components. Office is present in two developments in small amounts. Structured parking is a major component at four of the mixed use developments.

Table 3-1

MIXED-USE COMPONENTS

Development	Retail (Sq. Ft.)	Office (Sq. Ft.)	Residential (Units)	Hotel (Rooms)	Structured Parking (Spaces)
Excelsior and Grand	88,000		644		1,505
West End	347,000	33,000	119		1,470
Brookdale Center	544,000				
Apache Plaza	230,800		513		
Wayzata Bay Center	130,000	27,000	410	100	1,045
Genesee	14,000		234		405

Source: McComb Group, Ltd.

Public sector costs associated with these redevelopments have been significant, as shown in Table 3-2. Public sector costs ranged from $4.7 million for Brookdale Center to $30.0 million at Excelsior and Grand. Brookdale Center and Apache Plaza were the largest developments in terms of land area and Genesee is the smallest. The three largest redevelopments, in terms of public cost, had development sites that ranged from 14.5 to 17.0 acres.

Table 3-2

REDEVELOPMENT SIZE AND PUBLIC SECTOR COST

Development	Acres	Public Cost Amount	Public Cost Per Acre
Excelsior and Grand	16.0	$ 30,000,000	$ 1,875,000
West End	17.0	21,900,000	1,288,235
Brookdale Center	56.0	4,700,000	83,929
Apache Plaza	50.0	8,900,000	178,000
Wayzata Bay Center	14.5	22,900,000	1,579,310
Genesee	3.7	13,000,000	3,513,514

Source: McComb Group, Ltd.

All of the redevelopment case studies relied on TIF for some or all of the public costs. Four of the redevelopments--Excelsior and Grand, West End, Wayzata Bay Center and Genesee--were vertical mixed-use; Apache Plaza was horizontal mixed-use; and Brookdale Center was a single use redevelopment. In the three vertical mixed-use redevelopments that have been completed, the retail components have experienced slow absorption and above average vacancy.

EXCELSIOR AND GRAND
St. Louis Park, Minnesota

Project Overview

Excelsior and Grand redevelopment was born from a vision to create a downtown for St. Louis Park. The plan included a complete redesign of Excelsior Boulevard into a four-lane landscaped avenue with parallel parking. It also included the Park Commons area (Excelsior and Grand) and the creation of Grand Way, a green area adjacent to mixed retail and residential uses, parking garages, and an amphitheater in an adjacent park.

Before Redevelopment

Prior to redevelopment, the Excelsior and Grand site between Princeton Avenue on the west and Monterey Drive on the east, contained aging commercial strip centers, as shown in Map 3-1. Areas north of Park Commons Drive contained a mix of commercial and residential uses. St. Louis Park assembled 37 parcels on five blocks, totaling approximately 16 acres for the Excelsior and Grand redevelopment.

Map 3-1

EXCELSIOR AND GRAND SITE; 1991

Source: Google Earth.

Project Description

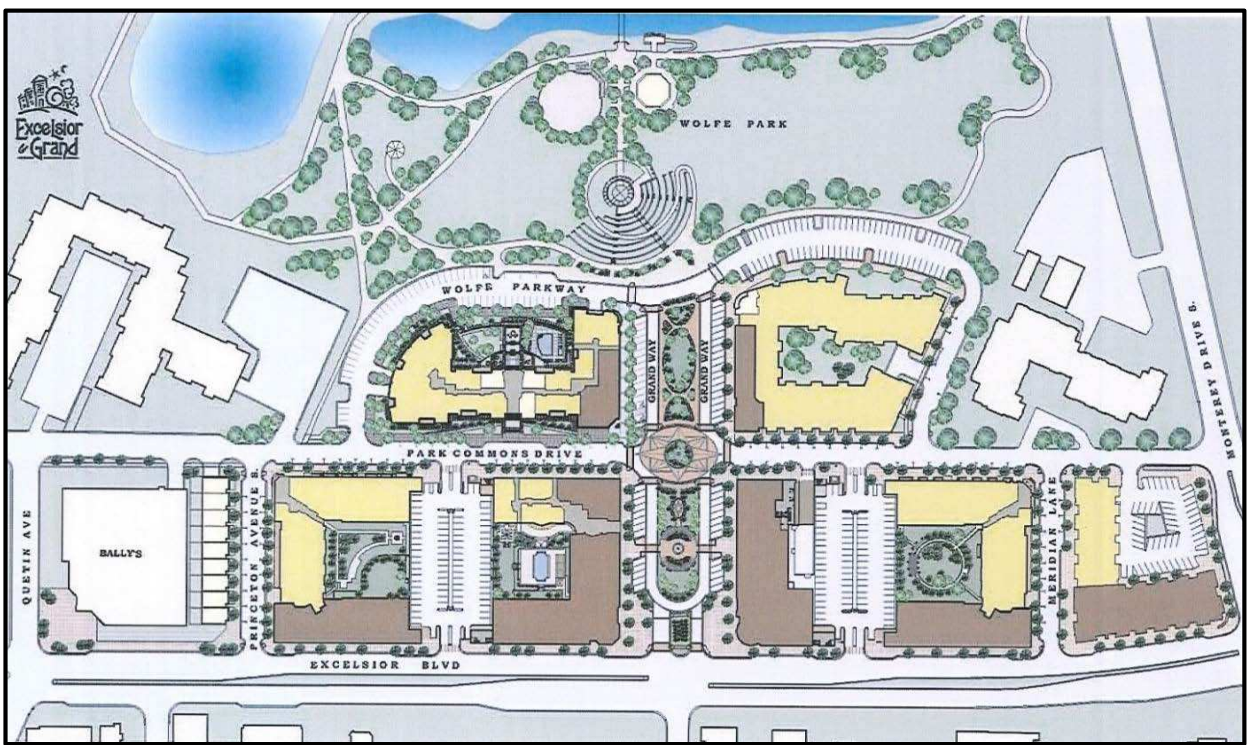
The Excelsior and Grand site plan and location, shown in Figure 3-1 and on Map 3-2, includes apartment and condominiums, retail, bus transit, and a park. Excelsior and Grand is a transit-oriented development. This redevelopment project features 644 housing units and 88,000 square feet of retail space. The redevelopment plan was proposed in 2000 and was completed in 2007. This project was developed in four phases:

- Phase I (2002): 338 apartments and 64,000 square feet of retail space
- Phase II (2004): 124 residential condos and 4,500 square feet of retail space
- Phase III (2006): 86 lofts and 14,000 square feet of retail space
- Phase IV (2007): 96 condos and 5,500 square feet of retail space

Excelsior and Grand is sited between Excelsior Boulevard, a commercial arterial, and Wolf Park. Grand Way features angle parking along the store fronts and normal sidewalk width, as shown in Figure 3-1.

Figure 3-1

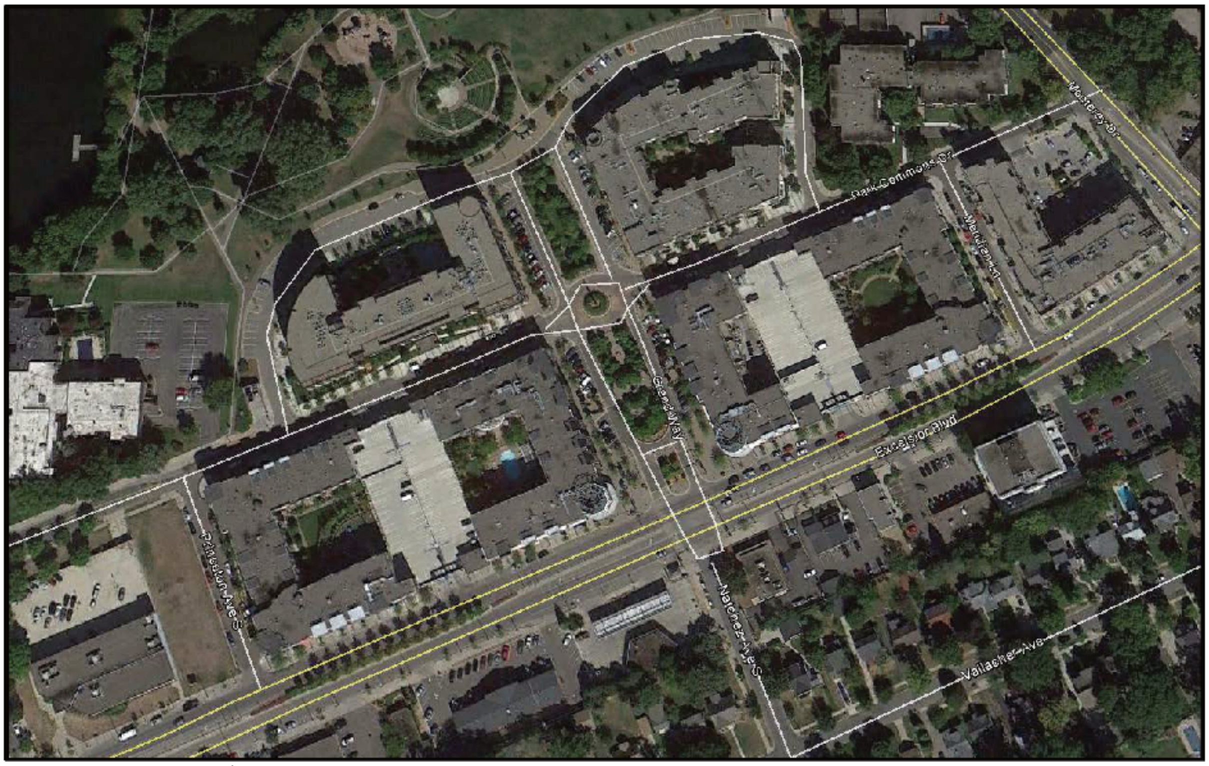
EXCELSIOR AND GRAND SITE PLAN



Source: TOLD Development.

Map 3-2

EXCELSIOR AND GRAND SITE; 2013



Source: Google Earth.

Retail Component

The retail component contains 88,000 square feet including Trader Joe's grocery and CVS Pharmacy.

Retail tenant mix includes 19 businesses, including two food services, three convenience goods, two shopping goods and 12 services. There are four vacant spaces.

Excelsior and Grand features plentiful retail parking: 475 public parking ramp stalls (5.4 spaces per 1,000 square feet) and 285 on street parking spaces (3.2 spaces per 1,000 square feet) for a total of 760 spaces or a parking ratio of 8.6 spaces per 1,000 square feet.

During a recent site visit, four vacant spaces (three small and one large) were observed. These spaces total about 19,000 square feet for a vacancy rate of 21.6 percent.

The residential component has enjoyed high occupancy; the retail area has been less reliable.

Public Financial Support

Financial contributions to the $180 million redevelopment included $30.0 million in public financing in the form of $15.5 million TIF and grants from the Metropolitan Council and the State of Minnesota. These funds were used for pre-development planning, site preparation, remediation, and public infrastructure. Based on a 16 acre site, the public investment is about $1,875,000 per acre or about $43.00 per square foot of land.

WEST END
St. Louis Park, Minnesota

Project Overview

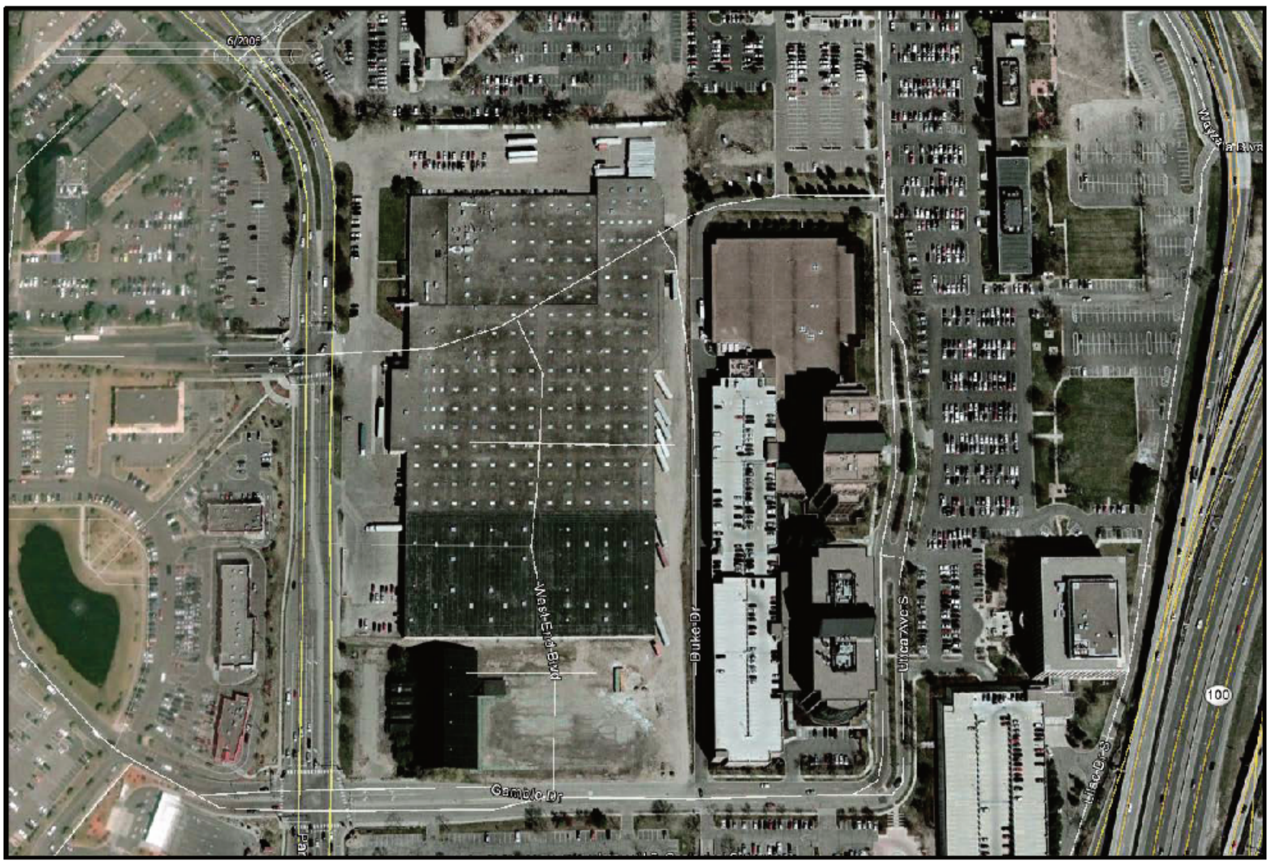
West End is a major mixed-use development located in the southwest corner of two major highways, I-394 and Highway 100. This lifestyle center development also contains a theater, grocery store and office space. The West end is a shopping and entertainment destination and is also home to The Flats at West End, a recently opened upscale apartment building.

Before Redevelopment

Prior to redevelopment, the West End site contained a 380,000 square foot office/warehouse and tennis club, which were razed. The site was bordered on the east by a major office development.

Map 3-3

WEST END SITE; 2006



Source: Google Earth.

Project Description

West End site plan and location are shown in Figure 3-2 and on Map 3-4. The development, which opened in 2009, includes a lifestyle center with retail stores, a grocery store, a wide variety of restaurants, a 14-screen movie theater, and about 1,700 parking spaces. There is also an apartment building, which opened later. In total, there are approximately 347,000 square feet of retail, 119 apartments, and 33,000 square feet of office space. Parking includes a 225 space surface lot serving the supermarket, 520 below grade spaces under the retail area, and 950 spaces in an above grade parking garage. Overflow evening and weekend parking is in an adjacent 1,568 parking garage serving an existing office development.

Leasing at West End was slow initially following the opening in 2009. Five years later, the West End should end the year with a vacancy of about 18,000 square feet or 4.7 percent, after two new tenants occupying about 51,900 square feet open. The West End is sited between Park Place Boulevard and Duke Drive and bounded by Gamble Drive on the south and I-394 on the north, as shown in Figure 3-2.

Figure 3-2

WEST END SITE PLAN

Source: City of St. Louis Park.

Map 3-4

WEST END SITE; 2013

Source: Google Earth.

Public Financial Support

Financial contributions to the West End redevelopment was $21.9 million in public financing including $21.0 million in TIF and $900,000 in park dedication fee reductions.

BROOKDALE CENTER
Brooklyn Center, Minnesota

Project Overview

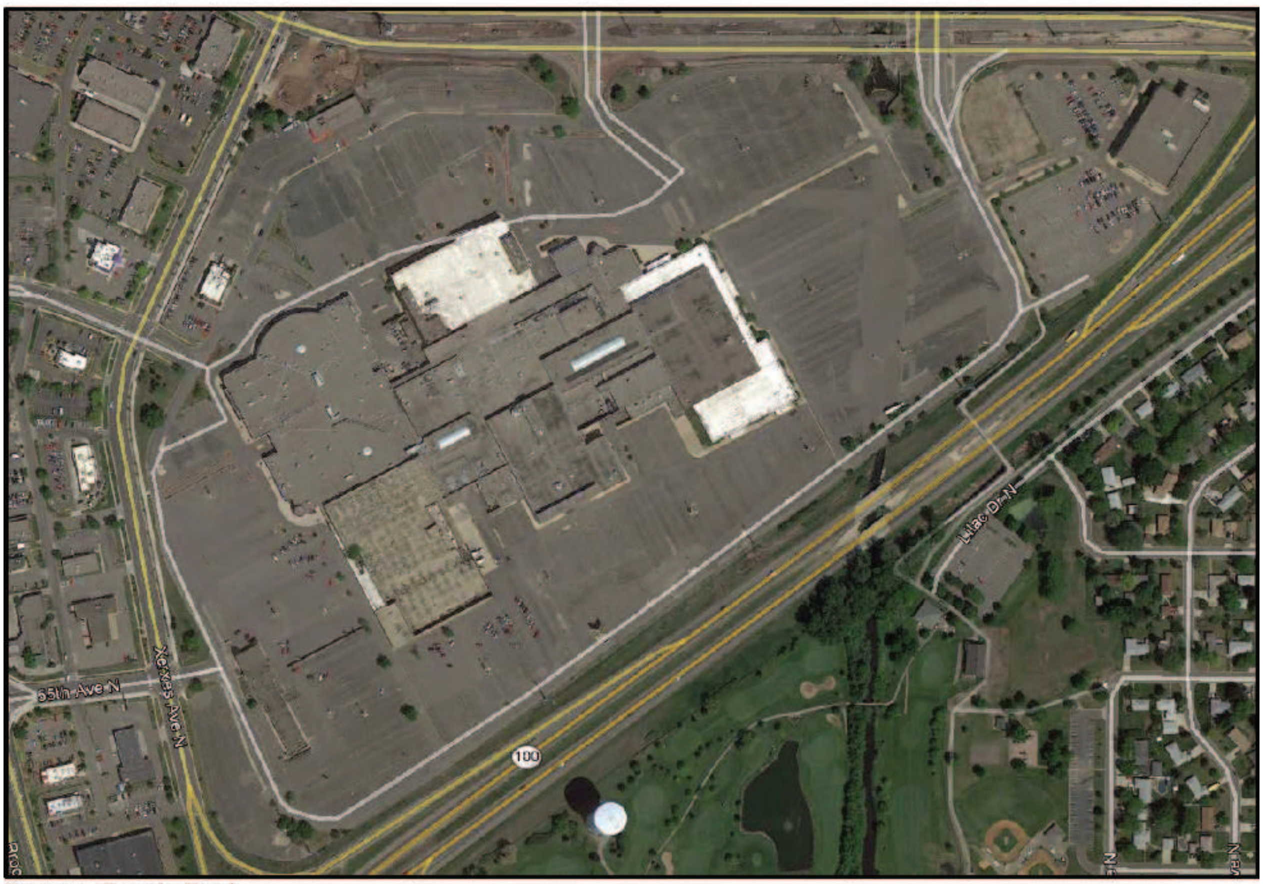
Brookdale Center, built in 1962, was the second of the four local "Dales" developed by Dayton Company. This center had deteriorated over the years, losing the majority of its anchors between 2004 and 2006 and facing foreclosure in 2009. This struggling center was ultimately sold in a Sheriff's sale in 2010. Demolition of the center, excluding Sears, began in 2011 paving the way for redevelopment of the retail area and the creation of a new shopping center, Shingle Creek Crossing. The first phase of redevelopment of this area was completed in 2013 with a Walmart Supercenter and three strip center buildings, costing an estimated $100 million. Development of the balance of the site is ongoing.

Before Redevelopment

Brookdale Center was located at Highway 100 and Bass Lake Road in Brooklyn Center, as shown on Map 3-5. Prior to redevelopment, Brookdale Center was a one million square foot super regional shopping center with a stand-alone Kohl's department store and three additional buildings on out lots. In total, the Brookdale Center area covered approximately 65 acres.

Map 3-5

BROOKDALE CENTER SITE; 2011



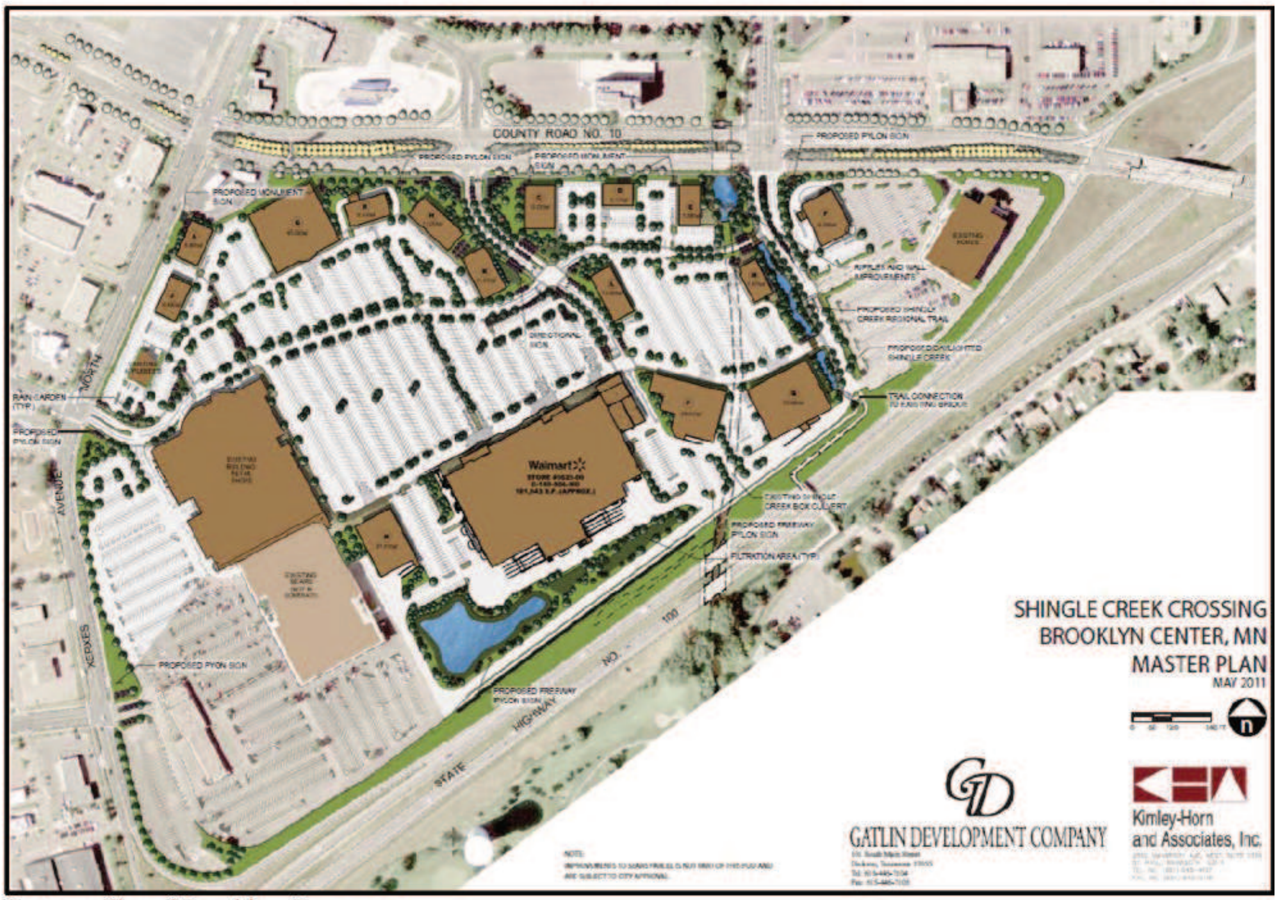
Source: Google Earth.

Project Description

The Shingle Creek Crossing site plan and location are shown in Figure 3-3 and on Map 3-6. Shingle Creek Crossing is anchored by an 185,000 square foot Walmart Supercenter and a previously constructed Sears store. Other key tenants include LA Fitness and Applebee's. Additional retail space is provided by three adjacent strip centers, which include three limited food service establishments, three cellular phone stores, one car rental service, one automotive service center, and 12 vacant spaces. Recently, it was announced that three additional retailers will be joining the shopping center: T.J. Maxx, Michael's Arts & Crafts, and Sally Beauty Supply. Additional small space and restaurant space is currently available within various out lot buildings, as well as larger freestanding store development opportunities.

Figure 3-3

SHINGLE CREEK CROSSING SITE PLAN



Source: City of Brooklyn Center.

Map 3-6

SHINGLE CREEK CROSSING SITE; 2013

Source: Google Earth.

Public Financial Support

Brooklyn Center's financial contributions for the Shingle Creek Crossing redevelopment totaled $4.7 million in financial incentives as described below:

- $2.4 million inter-fund loan from two TIF districts:
    - $1.4 million forgivable loan, for the completion of the 1st phase improvements, including internal streetscaping and daylighting of the Shingle Creek.
    - $1 million forgivable loan, that is proportionately forgiven based on the percentage of Phase II development completed in the first 5 years.

- $2.3 million Pay-As-You-Go tax increment funded note.

APACHE PLAZA
St. Anthony, Minnesota

Project Overview

Apache Plaza, constructed in 1961, was one of the area's early enclosed regional malls. With the changing retail competition and improved highway system, Apache Plaza became less attractive to shoppers and retailers. In 2004, Apache Plaza closed and was demolished to make way for Silver Lake Village, a mixed-use development. Redevelopment of this area was completed in 2005, costing an estimated $140 million.

Before Redevelopment

Apache Plaza was located in the northwest quadrant of Silver Lake Road and County Road D in St. Anthony, as shown on Map 3-7. Prior to redevelopment, Apache Plaza was a 530,000 square foot shopping mall with over 70 stores, anchored by Herberger's and New Market Grocery.

Map 3-7

APACHE PLAZA SITE; 2004

Source: Google Earth.

Project Description

The Silver Lake Village (Apache Plaza's replacement) site plan and location are shown in Figure 3-4 and on Map 3-8. Silver Lake Village is a horizontal mixed-use development anchored by Cub Foods (and formerly Walmart) and contains a mixture of small shops in a "Main Street" setting. The former Apache Plaza is about half of the redevelopment area, which included a deteriorated area west of the mall where the housing is located. There are also 250 condominium apartments, 263 rental apartments and a city park with an amphitheater. Current tenant mix includes two convenience goods, 10 food services, one convenience/gasoline, four shopping goods, one motor vehicle and parts, nine services, seven medical providers and four vacant spaces (including the recently closed Walmart).

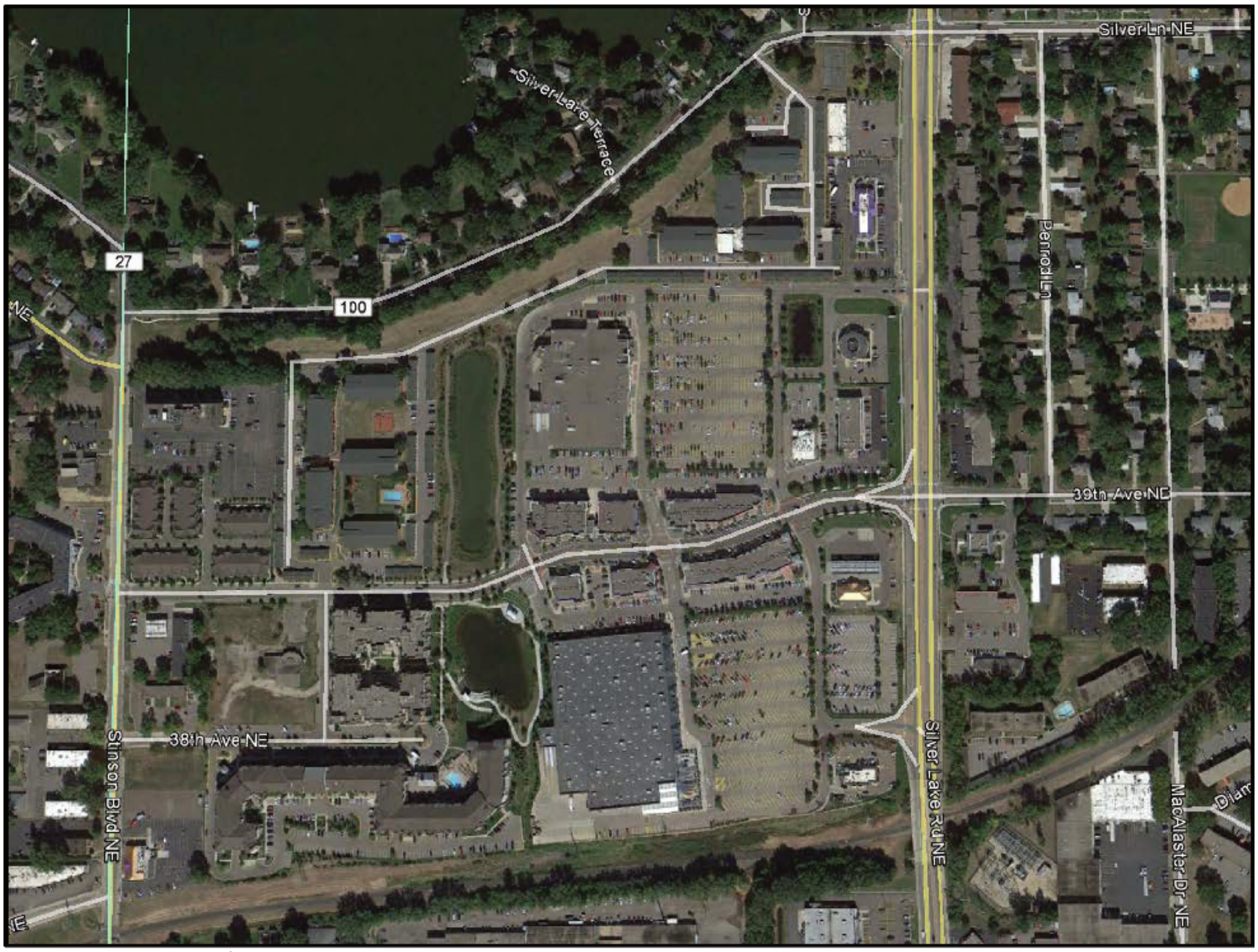
Figure 3-4

SILVER LAKE VILLAGE SITE PLAN

Source: City of St. Anthony.

Map 3-8

SILVER LAKE VILLAGE SITE; 2013



Source: Google Earth.

Public Financial Support

The City of St. Anthony utilized TIF to facilitate the Silver Lake Village redevelopment. In total $8.9 million in TIF was used for the overall development of a 50-acre site, which included road extensions, infrastructure, and acquiring a number of buildings including the Apache Mall, liquor store, office building, strip mall, Cub Foods, and others.

WAYZATA BAY CENTER
Wayzata, Minnesota

Project Overview

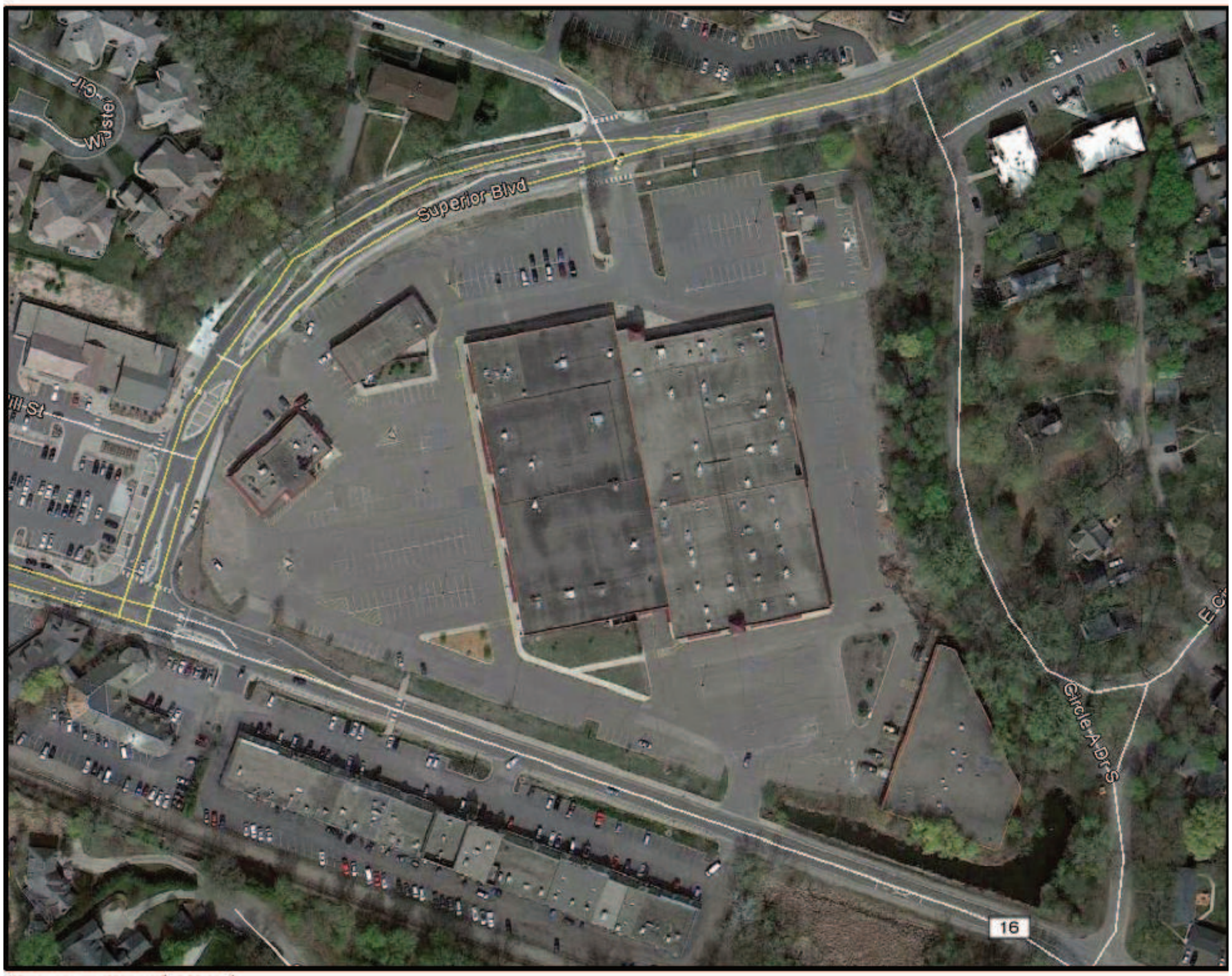
Wayzata Bay Center redevelopment is a mixed use development located on 14.5 acres. The $225.0 million mixed use redevelopment project, named The Promenade of Wayzata, was approved in June of 2008 and broke ground for Phase I in 2012.

Before Redevelopment

Wayzata Bay Center was located at the intersection of Superior Boulevard and Lake Street in downtown Wayzata, as shown on Map 3-9. Prior to redevelopment, Wayzata Bay Center was a 130,000 square foot enclosed neighborhood center, which had experienced increased vacancy.

Map 3-9

WAYZATA BAY CENTER SITE; 2012



Source: Google Earth.

Project Description

The Promenade of Wayzata site plan and location are shown in Figure 3-5 and on Map 3-10. The Promenade of Wayzata proposes a total of 130,000 square feet of retail, 325 senior housing units, 85 conventional housing units, 25,000 to 30,000 square feet of office and an 80- to 100-room limited service hotel. Development of this mixed use project is to be completed in two phases:

- Phase I: Two buildings with ground level retail, Lunds grocery store, and 225 senior apartments
- Phase II: Two more buildings with 63,000 square feet of retail

Phase I, which included The Folkstone Senior Living Community owned by Presbyterian Homes and Lunds grocery store, was completed early in 2014. When all phases are complete, The Promenade of Wayzata area will be a destination, with pedestrian walkways, shopping and dining, plazas and open space, public art, and fountains.

Figure 3-5

THE PROMENADE OF WAYZATA SITE PLAN

Source: City of Wayzata.

Map 3-10

THE PROMENADE OF WAYZATA SITE; 2013

Source: Google Earth.

Public Financial Support

The City of Wayzata's contribution to this redevelopment project includes creating a 25-year TIF district for the project. The city anticipates that the TIF would amount to a pay-as-you-go note of $22.9 million. Nine million dollars of TIF were used to pay for streets and infrastructure required by the development. Funding sources for this project include 501(c)3 conduit bonds issued by the City of Wayzata, taxable notes, and private investors.

GENESEE
Bloomington, MN

Project Overview

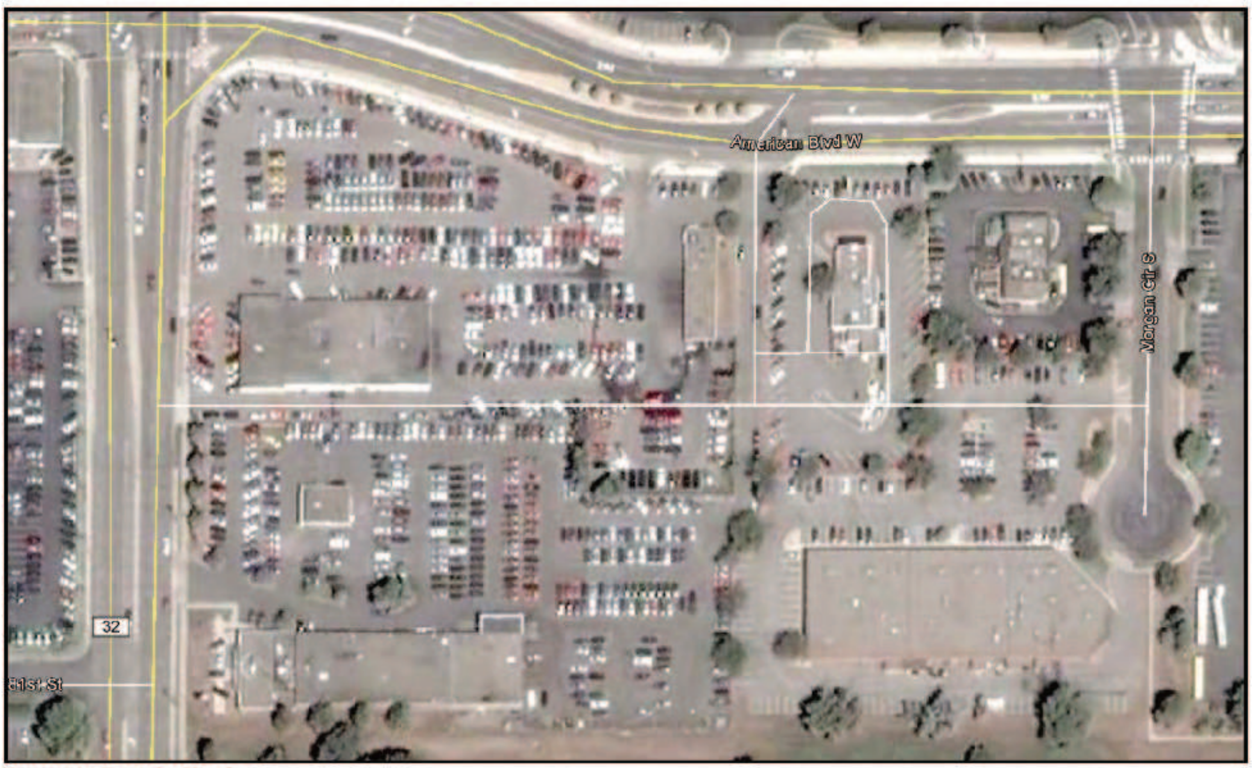
Genesee is a mixed use development located in the Penn American District and consists of a 7.0-acre area that will be developed in two phases. The first phase, The Genesee, is a mixed-use development that encompasses approximately four acres and is located on the southern portion of the parcel, or the northeast quadrant of Penn Avenue and West 81st Street. Phase I is complete. Phase II will be located north of The Genesee, or on the southeast corner of Penn Avenue and American Boulevard, and is expected to break ground in August 2014.

Before Redevelopment

Penn American District redevelopment required the acquisition of two parcels that had existing automotive dealerships, as shown on Map 3-11. The Genesee, or Phase I, was developed on the southern parcel and Phase II will be developed on the northern parcel.

Map 3-11

GENESEE SITE; 2006



Source: Google Earth.

Project Description

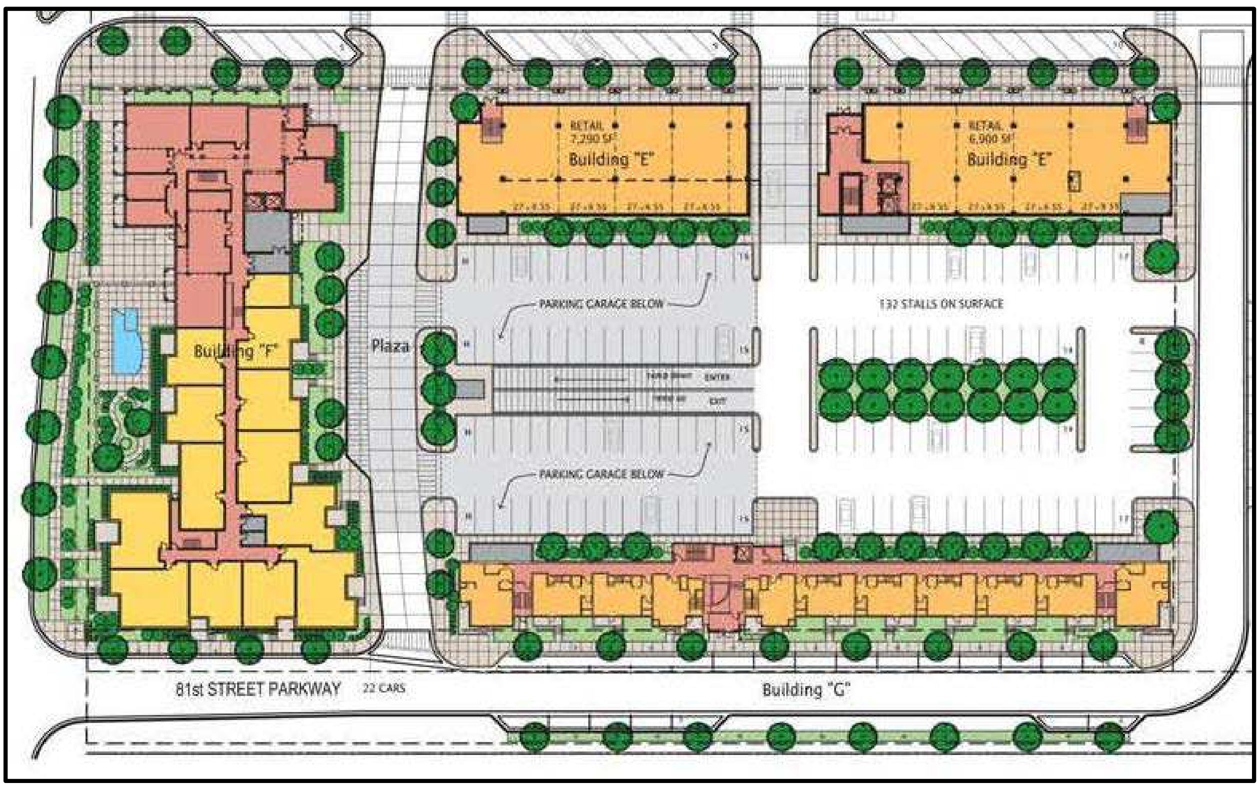
The Genesee opened in November 2012, and includes one eight-story tower and two four-story buildings with 234 upscale rental units and 14,000 square feet of retail space, as shown in Figure 3-6 and on Map 3-12. Parking includes 250 underground stalls, 155 surface stalls, and 24 on-street stalls. The Genesee has Metro Transit Bus access and includes a four-level plaza, eight-level tower, and a separate 22-unit townhome structure.

Retail tenants include two limited service restaurants, a personal care service, and a financial office. Four vacant spaces appear to represent 48.6 percent of the retail space. Recent information indicates that two spaces may have been leased, but are not yet built out. This would reduce vacancy to about 20 percent.

It was recently announced that United Properties will soon be breaking ground for Phase II, which includes a 107-room hotel, a 28,600 square foot grocery store, a 7,000 square foot restaurant, and 10,000 square feet of retail space.

Figure 3-6

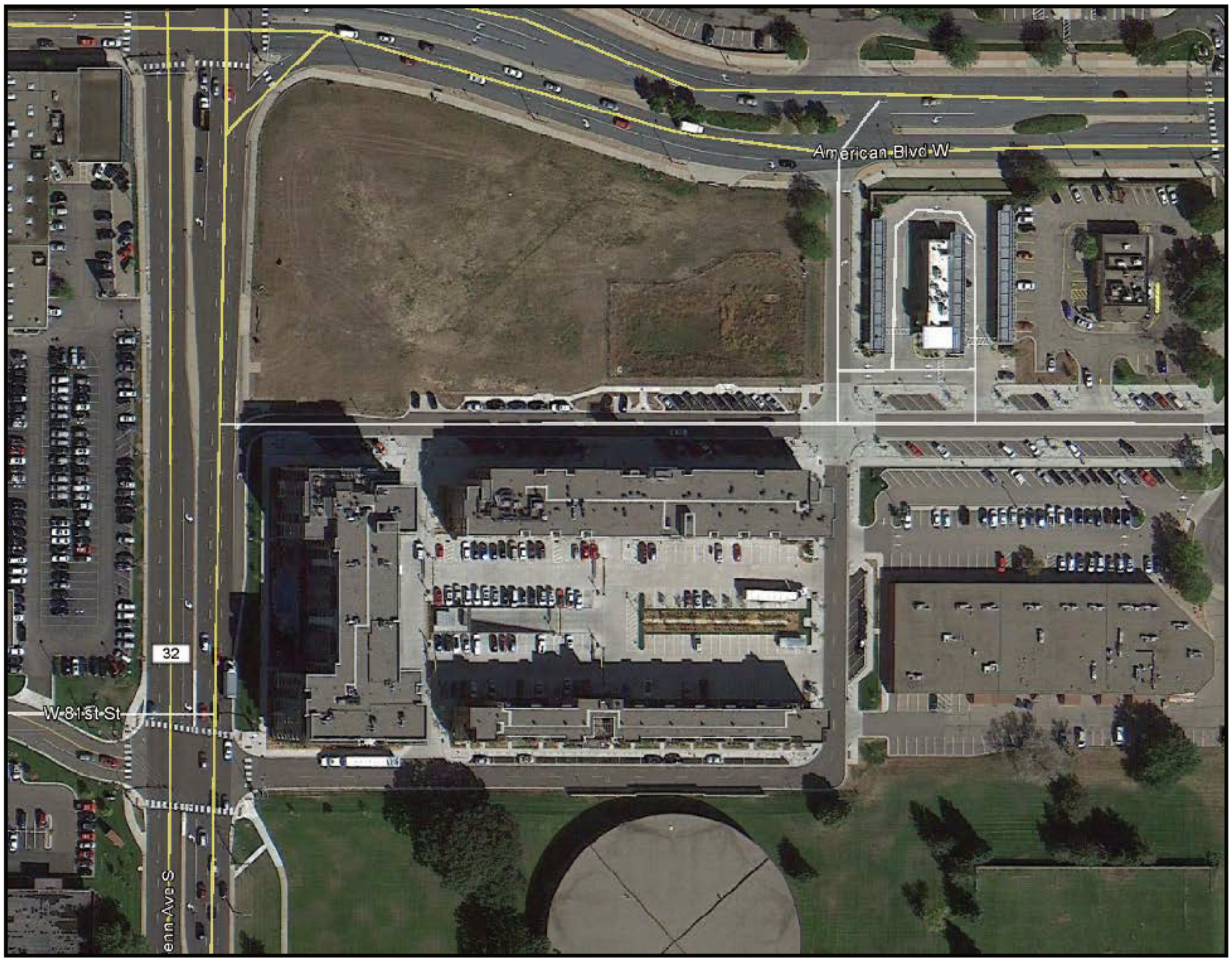
GENESEE SITE PLAN



Source: Minnesota Shopping Center Association.

Map 3-12

GENESEE--PENN AMERICAN DISTRICT PHASE I SITE; 2013



Source: Google Earth.

Public Financial Support

City financial contributions to the Genesee redevelopment was approximately $13.0 million in public financing including $1.0 million in TIF from other districts, $2.2 million in economic development TIF, and $9.8 million in HRA funds.